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D.C. FINANCIAL PACKAGE

HEARING AND MARKUP

BEFORE THE

SUBCOMMITTEE ON FISCAL AFFAIRS AND HEALTH

AND THE

COMMITTEE ON THE DISTRICT OF COLUMBIA HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 2641, H.R. 2642, H.R. 2643, and H.R. 2947

A COMPREHENSIVE FINANCIAL PLAN FOR THE DISTRICT OF COLUMBIA

JULY 15, 1985

Serial No. 99-8

Printed for the use of the
Committee on the District of Columbia

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STAFF SUMMARY OF FINDINGS AND CONCLUSIONS

An essential financial operating plan for the District of Columbia will evolve with the successful passage of four specific bills—H.R. 2641, H.R. 2642, H.R. 2643, and H.R. 2947. The first three bills were introduced pursuant to the request of Mayor Marion Barry.

Each bill, in a distinct respect, amends the District of Columbia Self-Government and Governmental Reorganization Act, addressing among other major issues, the long-term factors which negatively affect ratings for long-term bond offerings.

For instance, H.R. 2641 would amend the Home Rule Act to authorize a Federal contribution to reduce the District's accumulated general fund deficit; H.R. 2642 sets a formula-based Federal payment for the District and requires the District to offset in its annual budget any deficit occurring in its general fund for the previous fiscal year; H.R. 2947 and H.R. 2643 are primarily intended to improve the debt issuance process. These two bills are substantially the same—one major difference being the inclusion of covenant language in the latter.

The successful passage of these bills, which comprise this most vital financial package, would strengthen the District of Columbia's fiscal position and would move the District closer to achieving full home rule and meaningful local control over local affairs.

HEARING AND MARKUP ON THE CITY'S FINANCIAL PACKAGE—H.R. 2641, H.R. 2642, H.R. 2643, AND H.R. 2947

MONDAY, JULY 15, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FISCAL AFFAIRS AND HEALTH,
COMMITTEE ON THE DISTRICT OF COLUMBIA,
Washington, DC.

The subcommittee met, pursuant to call, at 9:25 a.m., in room 1310, Longworth House Office Building, Hon. Walter E. Fauntroy (chairman of the subcommittee) presiding.

Present: Representatives Fauntroy and McKinney.

Also present: Edward C. Sylvester, Jr., staff director; Julius Hobson, staff assistant; Johnny Barnes, senior staff counsel; Donn G. Davis, senior legislative associate; John Gnorski, minority staff director; Ron Hamm and Mark Robertson, minority staff assistants.

[The bills, H.R. 2641, H.R. 2642, H.R. 2643, and H.R. 2947, follow:]

I

99TH CONGRESS
1ST SESSION

H. R. 2641

To amend the District of Columbia Self-Government and Governmental Reorganization Act, to authorize a Federal contribution to reduce the accumulated deficit of the District, to modify limitations on District taxing authority, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 3, 1985

Mr. FAUNTROY (by request) introduced the following bill; which was referred to the Committee on the District of Columbia

---

A BILL

To amend the District of Columbia Self-Government and Governmental Reorganization Act, to authorize a Federal contribution to reduce the accumulated deficit of the District, to modify limitations on District taxing authority, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93–198, 87 Stat. 774), as amended, is amended as follows:

(a) Section 502 (D.C. Code, sec. 47–3406) is amended by inserting new subsections as follows:

"APPROPRIATIONS

"SEC. 502. (c) Notwithstanding any other provision of law, there is authorized to be appropriated for the fiscal year ending September 30, 1986, and for each of the nine fiscal years thereafter, as the Federal contribution to reducing the District of Columbia accumulated general fund deficit, a sum equal to $13.45 million.

"(d) Notwithstanding any other provision of law, amounts required to be paid to the District of Columbia pursuant to subsection (c) of this section shall be paid without further appropriation by the Secretary of the Treasury on the first day of each fiscal year for which the amounts are to be provided.".

(b) Section 602(a)(5) (D.C. Code, sec. 10233(a)(5)) is amended to read as follows:

"(5) impose any tax in excess of two percent on the whole or any portion of the personal income, either directly or at the source thereof, of any individual not a resident of the District."

I

99TH CONGRESS
1ST SESSION

H. R. 2642

To amend the District of Columbia Self-Governmental Reorganization Act, to establish a formula-based annual Federal Payment, to require the District to budget to offset any deficit occurring in its General Fund and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 3, 1985

Mr. FAUNTROY (by request) introduced the following bill; which was referred to the Committee on the District of Columbia

---

A BILL

To amend the District of Columbia Self-Governmental Reorganization Act, to establish a formula-based annual Federal Payment, to require the District to budget to offset any deficit occurring in its General Fund and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93–198 Stat. 774), as amended, is amended as follows:

(a) Section 446 (D.C. Code, sec. 47–304) is amended by striking out the last sentence and inserting in lieu thereof:

"Notwithstanding any other provision of law—

"(1) the Mayor shall not transmit any annual budget or amendments or supplements thereto, to the President of the United States until the completion of the budget procedures contained in this Act; and

"(2) in the event that, before October 1st of any fiscal year, amounts proposed to be obligated or expended by the District of Columbia for such fiscal year and required to be approved by Act of Congress, signed by the President, have not been so approved, the District of Columbia may obligate and expend funds in the manner and the amounts provided in the annual budget for such fiscal year transmitted by the President until such time as the amounts proposed to be obligated or expended by the District of Columbia for such fiscal year and required to be so approved have been approved by Act of Congress, signed by the President.".

(b) Section 501 (D.C. Code, sec. 74–3405) is amended:

(1) by striking out all of subsection (a) after the word "Budget" in the second sentence; and

(2) by striking out all of subsection (c).

(c) Section 502 (D.C. Code, sec. 47–3406) is amended by inserting new subsections as follows:

"APPROPRIATIONS

"SEC. 502. (c) Notwithstanding any other provision of law, there is authorized to be appropriated for the fiscal year

ending September 30, 1986, and for each fiscal year thereafter, as the annual Federal payment to the District of Columbia, a sum equal to thirty-five percent of the total tax revenue of the general fund of the District of Columbia reflected in the most recently submitted financial statement and report required by section 448(a)(4) of this Act.

"(d) Notwithstanding any other provision of law, amounts required to be paid to the District of Columbia pursuant to subsection (c) of this section shall be paid without further appropriation by the Secretary of the Treasury on the first day of each fiscal year for which the amounts are to be provided.".

(d) Section 603(c) (D.C. Code, sec. 47–313) is amended by inserting a new sentence, after the first sentence, as follows: "Such estimated resources shall not reflect a sum equal to the excess of expenditures over revenues and other sources (excluding any payment made under section 502(d) of this Act) for the general fund reflected in the most recently submitted financial statement and report required by section 448(a)(4) of this Act, except to the extent that the Mayor certifies that such excess of expenditures reflected in such financial statement and report is estimated to be provided for in the current fiscal year.".

99TH CONGRESS
1ST SESSION

H. R. 2643

To amend the District of Columbia Self-Government and Governmental Reorganization Act, to facilitate the issuance of bonds and notes by the District of Columbia.

IN THE HOUSE OF REPRESENTATIVES

JUNE 3, 1985

Mr. FAUNTROY (by request) introduced the following bill; which was referred to the Committee on the District of Columbia

---

A BILL

To amend the District of Columbia Self-Government and Governmental Reorganization Act, to facilitate the issuance of bonds and notes by the District of Columbia.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. BOND AND NOTE ACTS EFFECTIVE IMMEDIATELY.

(a) Section 602(c)(1) of the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198, 87 Stat. 774; D.C. Code, sec. 1-233(c)(1); hereinafter in this Act referred to as "the Act" is amended—

(1) by inserting "acts of the Council pursuant to section 462, 471(a), 472(a) or 490(a), which acts shall

become effective immediately," after the first word of the first sentence; and

(2) by striking out the words "and except as provided in section 462(c) and section 472(d)(1)" in the first sentence.

(b) Section 462 of the Act (D.C. Code, sec. 47-322) is amended—

(1) by striking out "(a)" in subsection (a); and

(2) by striking out all of subsections (b) and (c).

(c) Section 472 of the Act (D.C. Code, sec. 47-328) is amended—

(1) by striking out subsection (d)(1); and

(2) by striking out "(2)" in subsection (d)(2).

SEC. 2. BONDS AND NOTES: ADDITIONAL SECURITY FEATURES.

(a) Section 446 of the Act (D.C. Code, sec. 47-304) is amended by inserting "section 467(e)," after the words "section 467(d)," in the fourth sentence.

(b) Section 461(a) of the Act (D.C. Code, sec. 47-321) is amended by inserting ", or for the purposes of section 467(e)" after the word "outstanding" in the first sentence.

(c) Section 467 of the Act (D.C. Code, sec. 47-326.1) is amended—

(1) by striking out the words "general obligation bonds under section 461(a)" in subsection (a) and in-

serting in lieu thereof the words "bonds, notes or other obligations under section 461(a), 471(a), 472(a) or 490(a)" and by inserting ",, notes or other obligations" before the word "authorized" in subsection (a);

(2) by inserting ", notes or other obligations" after the word "bonds" wherever it appears in subsection (b);

(3) by inserting "is a first priority lien, shall attach immediately upon receipt by the District of such revenues in which such security interest is created, and" after the word "interest" in the third sentence of subsection (c);

(4) by inserting the following new sentence at the end of subsection (c):

"No court shall waive, modify or in any way alter any security interest and lien created pursuant to this subsection."

(5) by striking out the words "general obligation" in subsection (d) and by inserting ", note or other obligation" after the word "bond" in subsection (d); and

(6) by inserting a new subsection as follows:

"(e) An act of the Council authorizing the issuance of bonds, notes or other obligations under section 462, 471(a), 472(a) or 490(a) may authorize the District to enter into and amend liquidity or credit enhancement agreements and facilities to improve the marketability of such bonds, notes or

other obligations, including but not limited to, letters of credit and related reimbursement agreements, lines of credit, loan agreements, revolving credit agreements, guarantees, purchase agreements and bond insurance. Such act of the Council may authorize the District to issue or to contract to issue its refunding bonds, notes or other obligations to refund such bonds, notes or other obligations issued under section 462, 471(a), 472(a) or 490(a) or to evidence the District's obligations to the provider of such liquidity or credit enhancement agreement and facility under the terms of such agreement and facility. The fourth sentence of section 446 shall not apply to any obligation or expenditure pursuant to this subsection.".

(d)(1) Section 471(a) of the Act (D.C. Code, sec. 47-327) and section 472(a) of the Act (D.C. Code, sec. 47-328) are amended by inserting "The purposes of such notes may include the payment of costs incidental to the issuance of such notes or the purposes of section 467(e)." after the first sentence.

(2) Section 471(b) of the Act (D.C. Code, sec. 47-327) and section 472(c) of the Act (D.C. Code, sec. 47-328) are amended by inserting "through the issuance of general obligation refunding notes or otherwise" at the end of the first sentence thereof.

(e) Section 481 of the Act (D.C. Code, sec. 47-331) is amended—

(1) by inserting after the words "set aside in a separate debt service fund" the phrase "or account, segregated from other monies of the District except such monies already segregated for the payment of general obligation bonds" in the third sentence of subsection (a); and

(2) by striking out all of subsection (b).

(f) Section 482 of the Act (D.C. Code, sec. 47-331.1) is amended—

(1) by inserting the phrase "Section 467(e)" after the phrase "Section 461(a)" in the first sentence thereof; and

(2) by inserting at the end thereof a new sentence as follows:

"The full faith and credit of the District shall not be pledged for the payment of any other obligation of the District, except as expressly provided by an act of the Council."

(g) Section 483 of the Act (D.C. Code, sec. 47-331.2) is amended—

(1) by inserting ", or by amendment of such annual budget," after the word "budget" in subsection (a);

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(2) by striking out the phrases "general obligation bonds or notes" and "general obligation bonds and notes" in subsections (a) and (b) and inserting in lieu thereof the phrase "bonds, notes or other obligations";

(3) by striking out the phrase "general obligation bond or note" in subsections (c) and (d)(2) and inserting in lieu thereof the phrase "bond, note or other obligation";

(4) by inserting the phrase "section 467(e)," after the phrase "section 461(a)," in subsections (a), (b), (c) and (d)(2);

(5) by inserting "by act of the Council or Act of the Congress" after the word "committed" in subsection (b); and

(6) by inserting "(1) that any tax pledged to the payment of principal and interest on bonds, notes or other obligations issued under section 461(a), section 467(e), section 471(a), and section 472(a) required to be levied or collected has not been levied or collected, or (2)" after the word "determines" in subsection (c).

(h) Section 484 of the Act (D.C. Code, sec. 47-331.3) is amended to read as follows:

"ROLE OF THE UNITED STATES

"SEC. 484. (a) The full faith and credit of the United States is not pledged for the payment of any principal of or interest on any bond, note or other obligation issued by the

District under this part. The United States is not responsible or liable for the payment of any principal of or interest on any bond, note or other obligation issued by the District under this part.

"(b) Bonds, notes or other obligations issued by the District under this part shall not be deemed to be directly or indirectly guaranteed by the United States for any purpose under the laws of the United States.

"(c)(1) The United States pledges, for the benefit of holders of bonds, notes or other obligations issued by the District under this part, that it will not enact any law, adopt any rule or otherwise impair the power or duty of the District to fulfill its responsibility and covenants in any act authorizing the issuance of such bonds, notes or other obligations. The United States further pledges, for the benefit of holders of such bonds, notes or other obligations, not to impair the rights and remedies of any holders of such bonds, notes or other obligations to enforce the covenants of the District and the pledge of the United States.

"(2) The District is authorized to include the provisions of this subsection in any act authorizing the issuance of bonds, notes or other obligations under this part as part of the contract with the holders of such bonds, notes or other obligations or with holders of parity bonds, notes or other obligations.

"(3) Notwithstanding the foregoing, the pledge of the United States in this subsection shall be of no further force and effect with respect to bonds, notes or other obligations which have been paid or deemed paid in full in accordance with their terms."

SEC. 3. BONDS AND NOTES: ISSUANCE IMPROVEMENTS.

(a) Section 461(a) of the Act (D.C. Code, sec. 47-321) is amended by inserting ", or to eliminate all or any portion of any accumulated general fund deficit reflected in the financial statement and report required by section 448(a)(4) of this Act for the fiscal year ended September 30, 1984," before the word "and" in the first sentence.

(b) Section 462 of the Act (D.C. Code, sec. 47-322) is amended—

(1) by striking out all of paragraphs (2), (3), (4), and (5); and

(2) by striking out "(6)" in paragraph (6) and inserting in lieu thereof "(2)".

(c) Section 465(c) of the Act (D.C. Code, sec. 47-325) is amended by striking out the words ", except that at least one such signature shall be manual" in the first sentence.

(d) Section 466 of the Act (D.C. Code, sec. 47-326) is amended by striking out all of subsections (a) and (b) and inserting in lieu thereof: "All bonds, notes or other obligations issued pursuant to this part may be sold at public or

private sale without previous advertising at such price or prices as may be determined pursuant to the act authorizing the issuance of the bonds, notes or other obligations.".

(e) Section 472(a) of the Act (D.C. Code, sec. 47-328(a)) is amended by inserting ", or such other name as may be provided for in the act authorizing the issuance of such notes" after the phrase "revenue anticipation notes".

(f) Section 473 of the Act (D.C. Code, sec. 47-329) is amended—

(1) by striking out the title thereto and inserting in lieu thereof "REDEMPTION, INTEREST RATES, PUBLICATION AND SHORT PERIOD OF LIMITATIONS";

(2) by striking out the word "notes" and inserting in lieu thereof "bonds, notes or other obligations" and by striking out the word "note" wherever it appears and inserting in lieu thereof "bond, note or other obligation"; and

(3) by inserting at the end new sentences as follows:

"Bonds, notes or other obligations issued pursuant to this part shall bear interest at such rate or rates, fixed or variable, and be payable at such times and in such manner as may be provided in or determined pursuant to the act of the Council authorizing such bonds, notes or other obligations.

Each act authorizing the issuance of bonds, notes or other obligations pursuant to this part may be published in the manner provided in section 463(a), substituting the words "bonds, notes or other obligations" for "general obligation bonds" in the second sentence of section 463(a), substituting the words "bonds, notes or other obligations" and "bonds, notes and other obligations" for "bond" and "bonds" or "general obligation bond" and "general obligation bonds" as appropriate wherever they appear in sections 463(b) and 464.".

(g) Section 474 of the Act (D.C. Code, sec. 47-330) is repealed.

(h) Section 490 of the Act (D.C. Code, sec. 47-334) is amended—

(1) by inserting the phrase "within the meaning of any statutory limitation" after the word "debt" in subsection (c);

(2) by inserting at the end of subsection (c) the new sentence as follows:

"Nothing contained in this subsection shall prevent the District from issuing bonds, notes or other obligations pursuant to this section to be secured by or paid from the revenue (including any appropriated funds) of an enterprise owned or operated by or on behalf of the District."

(3) by inserting a new subsection as follows:

"(h) For the purposes of section 3(a)(2) of the Securities Act of 1933, revenue bonds, notes or other obligations issued pursuant to this section 490 and any securities issued concurrently with, and providing security for, such revenue bonds, notes or other obligations shall in all cases be deemed securities issued by the District of Columbia which are not industrial development bonds (as defined in section 103(b)(2) of the Internal Revenue Code of 1954).".

99TH CONGRESS
1ST SESSION

H. R. 2947

To amend the District of Columbia Self-Government and Governmental Reorganization Act to facilitate the issuance of bonds and notes by the District of Columbia.

IN THE HOUSE OF REPRESENTATIVES

JULY 10, 1985

Mr. FAUNTROY (for himself and Mr. DELLUMS) introduced the following bill; which was referred to the Committee on the District of Columbia

---

A BILL

To amend the District of Columbia Self-Government and Governmental Reorganization Act to facilitate the issuance of bonds and notes by the District of Columbia.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

The provisions of this Act may be cited as the "District of Columbia Bond Act of 1985".

SEC. 2. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress finds that it has a continuing interest in the affairs of the District of Columbia as required by article 1, section 8, of the Constitution and that

the citizens of the District should enjoy the maximum benefits of local self-government including full budget autonomy where constitutionally feasible.

(b) PURPOSES.—It is the purpose of this Act—

(1) to authorize the government of the District of Columbia to fully participate in the Nation's bond market to the extent that other municipal governments have such authority;

(2) to indicate the intent of the United States to facilitate the ability of the District of Columbia to fulfill its responsibilities and covenants in any act authorizing the issuance of any bonds, notes, or other obligations; and

(3) to the greatest extent possible, to relieve the Congress of the burden of legislating upon essentially local District fiscal matters.

SEC. 3. BOND AND NOTE ACTS EFFECTIVE IMMEDIATELY.

(a) EXEMPTION FROM CONGRESSIONAL REVIEW.—Section 602(c)(1) of the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198, 87 Stat. 774; D.C. Code, sec. 1-233(c)(1); hereinafter in this Act referred to as "the Act") is amended in the first sentence—

(1) by inserting "acts of the Council pursuant to sections 462, 471(a), 472(a) or 490(a) which shall become effective immediately," after "Except"; and

(2) by striking out "and except as provided in section 462(c) and section 472(d)(1)".

(b) ELIMINATION OF LAYOVER PROVISIONS RELATING TO ELECTIONS ON ISSUANCE OF BONDS.—Section 462 of the Act (D.C. Code, sec. 47-322) is amended—

(1) by striking out "(a)" in subsection (a);

(2) by striking out all of subsections (b) and (c); and

(3) by amending the heading of such section to read as follows: "CONTENTS OF BORROWING LEGISLATION".

(c) BORROWING IN ANTICIPATION OF REVENUES.—Section 472 of the Act (D.C. Code, sec. 47-328) is amended—

(1) by striking out paragraph (1) of subsection (d); and

(2) by striking out "(2)" in subsection (d)(2).

SEC. 4. ADDITIONAL SECURITY FEATURES OF BONDS AND NOTES.

(a) ENACTMENT OF APPROPRIATIONS BY CONGRESS.—Section 446 of the Act (D.C. Code, sec. 47-304) is

amended in the fourth sentence by inserting "section 467(e)," after "section 467(d),".

(b) AUTHORITY OF DISTRICT TO ISSUE GENERAL OBLIGATION BONDS FOR CAPITAL PROJECTS.—Section 461(a) of the Act (D.C. Code, sec. 47-321) is amended in the first sentence by inserting ", for the purposes of section 467(e)," after "outstanding".

(c) AUTHORITY TO CREATE SECURITY INTERESTS IN DISTRICT REVENUES.—Section 467 of the Act (D.C. Code, sec. 47-326.1) is amended—

(1) in subsection (a)—

(A) by striking out "general obligation bonds under section 461(a)" and inserting in lieu thereof "bonds, notes or other obligations under sections 461(a), 471(a), 472(a), or 490(a)"; and

(B) by striking out "bonds authorized" and inserting in lieu thereof "bonds, notes, or other obligations authorized";

(2) in subsection (b) by striking out "bonds" each place it appears and inserting in lieu thereof "bonds, notes, or other obligations";

(3) in subsection (c)—

(A) by inserting "is a first priority lien, shall attach immediately upon receipt by the District of such revenues in which such security interest is

created, and" after "interest" in the third sentence; and

(B) by inserting at the end of such subsection the following new sentence:

"No court shall waive, modify, or alter any security interest and lien created pursuant to this subsection.";

(4) in subsection (d) by striking out "general obligation bond" and inserting in lieu thereof "bond, note, or other obligation"; and

(5) by inserting at the end of such section a new subsection as follows:

"(e) An act of the Council authorizing the issuance of bonds, notes, or other obligations under section 462, 471(a), 472(a), or 490(a) may authorize the District to enter into and amend liquidity or credit enhancement agreements and facilities to improve the marketability of such bonds, notes, or other obligations, including but not limited to, letters of credit and related reimbursement agreements, lines of credit, loan agreements, revolving credit agreements, guarantees, purchase agreements, and bond insurance. Such act of the Council may authorize the District to issue or to contract to issue its refunding bonds, notes, or other obligations to refund such bonds, notes, or other obligations issued under section 462, 471(a), 472(a), or 490(a) or to evidence the District's obligations to the provider of such liquidity or credit enhancement

agreement and facility under the terms of such agreement and facility. The fourth sentence of section 446 shall not apply to any obligation or expenditure pursuant to this subsection.".

(d) BORROWING TO MEET APPROPRIATIONS.—

(1) Section 471(a) of the Act (D.C. Code, sec. 47-327) and section 472(a) of the Act (D.C. Code, sec. 47-328) are amended by inserting "The purposes of such notes may include the payment of costs incidental to the issuance of such notes or the purposes of section 467(e)." after the first sentence of each such section.

(2) Section 471(b) of the Act (D.C. Code, sec. 47-327) and section 472(c) of the Act (D.C. Code, sec. 47-328) are amended by inserting "through the issuance of general obligation refunding notes or otherwise" immediately before the period at the end of the first sentence of each such section.

(e) SPECIAL TAX.—Section 481 of the Act (D.C. Code, sec. 47-331) is amended in the third sentence of subsection (a) by inserting "or account, segregated from other monies of the District except such monies already segregated for the payment of general obligation bonds," after "fund".

(f) FULL FAITH AND CREDIT OF THE DISTRICT.—Section 482 of the Act (D.C. Code, sec. 47-331.1) is amended—

(1) in the first sentence by inserting "section 467(e)" after "section 461(a)"; and

(2) by inserting at the end thereof a new sentence as follows:

"The full faith and credit of the District shall not be pledged for the payment of any other obligation of the District, except as expressly provided by an act of the Council.".

(g) PAYMENT OF GENERAL OBLIGATION BONDS AND NOTES.—Section 483 of the Act (D.C. Code, sec. 47-331.2) is amended—

(1) in subsection (a) by inserting ", or by amendment of such annual budget," after "budget";

(2) in subsections (a) and (b) by striking out "general obligation bonds or notes" and "general obligation bonds and notes" each place it appears in each such subsection and inserting in lieu thereof "bonds, notes, or other obligations";

(3) in subsections (c) and (d)(2) by striking out "general obligation bond or note" each place it appears in each such subsection and inserting in lieu thereof "bond, note, or other obligation";

(4) in subsections (a), (b), (c), and (d)(2) by inserting "section 467(e)," after "section 461(a)," each place it appears in each such subsection;

(5) in subsection (b) by inserting "by act of the Council or Act of the Congress" after "committed" ;

(6) in subsection (c) by inserting "(1) that any tax pledged to the payment of principal and interest on bonds, notes or other obligations issued under section 461(a), section 467(e), section 471(a), and section 472(a) required to be levied or collected has not been levied or collected, or (2)" after "determines"; and

(7) in the heading of such subsection by striking out "THE GENERAL OBLIGATION BONDS AND NOTES" and inserting in lieu thereof "BONDS, NOTES, AND OTHER OBLIGATIONS".

SEC. 5. IMPROVEMENTS IN THE ISSUANCE OF BONDS AND NOTES.

(a) PURPOSES FOR ISSUANCE OF GENERAL OBLIGATION BONDS AND NOTES.—Section 461(a) of the Act (D.C. Code, sec. 47-321) is amended in the first sentence by inserting ", or to eliminate all or any portion of any accumulated general fund deficit reflected in the financial statement and report required by section 448(a)(4) for the fiscal year ended September 30, 1984," after "outstanding".

(b) REQUIRED CONTENTS OF BORROWING LEGISLATION.—Section 462 of the Act (D.C. Code, sec. 47-322) is amended—

(1) by striking out all of paragraphs (2), (3), (4), and (5); and

(2) by redesignating paragraph (6) as paragraph (2).

(c) TECHNICAL REQUIREMENT FOR ISSUANCE OF BONDS.—Section 465(c) of the Act (D.C. Code, sec. 47-325) is amended in the first sentence by striking out ", except that at least one such signature shall be manual".

(d) PUBLIC OR PRIVATE SALE.—Section 466 of the Act (D.C. Code, sec. 47-326) is amended by striking out all of subsections (a) and (b) and inserting in lieu thereof: "All bonds, notes or other obligations issued pursuant to this part may be sold at public or private sale without previous advertising at such price or prices as may be determined pursuant to the act authorizing the issuance of the bonds, notes or other obligations.".

(e) BORROWING IN ANTICIPATION OF REVENUES.—Section 472(a) of the Act (D.C. Code, sec. 47-328(a)) is amended by inserting ", or such other term as may be provided for in the act authorizing the issuance of such notes" after "revenue anticipation notes".

(f) REDEMPTION, INTEREST, PUBLICATION, AND LIMITATIONS.— Section 473 of the Act (D.C. Code, sec. 47-329) is amended—

(1) by striking out the heading of such section and inserting in lieu thereof "REDEMPTION, INTEREST RATES, PUBLICATION, AND SHORT PERIOD OF LIMITATIONS";

(2) by striking out "notes" and inserting in lieu thereof "bonds, notes, or other obligations" and by striking out "note" each place it appears and inserting in lieu thereof "bond, note, or other obligation"; and

(3) by inserting at the end the following new sentences:

"Bonds, notes, or other obligations issued pursuant to this part shall bear interest at such rate or rates, fixed or variable, and be payable at such times and in such manner as may be provided in or determined pursuant to the act of the Council authorizing such bonds, notes, or other obligations. Each act authorizing the issuance of bonds, notes, or other obligations pursuant to this part may be published in the manner provided in section 463(a), relating to the publication of general obligation bonds and shall be subject to the provisions and limitations of sections 463(b) and 464 relating to general obligation bonds.".

(g) SALE OF NOTES.—Section 474 of the Act (D.C. Code, sec. 47-330) is repealed.

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(h) REVENUE BONDS AND OTHER OBLIGATIONS.—Section 490 of the Act (D.C. Code, sec. 47-334) is amended—

(1) in subsection (c)—

(A) by striking out "debt of the District," and inserting in lieu thereof "debt of the District within the meaning of any statutory limitation,"; and

(B) by inserting at the end of such subsection the following new sentence:

"Nothing contained in this subsection shall prevent the District from issuing bonds, notes, or other obligations pursuant to this section to be secured by or paid from the revenue (including any appropriated funds) of an enterprise owned or operated by or on behalf of the District."; and

(2) by inserting at the end of such section the following new subsection:

"(h) For the purposes of section 3(a)(2) of the Securities Act of 1933, revenue bonds, notes, or other obligations issued pursuant to this section and any securities issued concurrently with, and providing security for, such revenue bonds, notes, or other obligations shall in all cases be deemed securities issued by the District of Columbia which are not industrial development bonds (as defined in section 103(b)(2) of the Internal Revenue Code of 1954).".

Mr. FAUNTROY. The subcommittee will come to order.

Today, the Subcommittee on Fiscal Affairs and Health will consider four bills that represent a comprehensive financial plan for the District of Columbia. Three of the bills, H.R. 2641, H.R. 2642, and H.R. 2643, were introduced by me at the request of Mayor Marion Barry. The fourth bill, H.R. 2947, was introduced by me on July 10, 1985.

Lazard Freres & Co., the District of Columbia's financial adviser, has stated that there are several long-term factors which negatively affect ratings for long-term bond offerings. These factors include the unfunded pension liability arising from the District's status as a Federal entity, limitations on the District's taxing authority, the lack of a formula-based Federal payment, a large outstanding capital debt to the U.S. Treasury, a large accumulated general fund deficit, and the District's lack of governmental sovereignty.

The bills, H.R. 2641, H.R. 2642, and H.R. 2643, are intended to address most of these points. H.R. 2947 is similar to H.R. 2643, with certain exceptions. This legislation is extremely important because the District's temporary borrowing authority expires September 30, 1985.

The only witnesses scheduled to testify are Alphonse G. Hill, the deputy mayor for finance of the District of Columbia government, and Richard C. Siegel, budget director for the Council of the District of Columbia.

Before hearing testimony, I would like to yield to the distinguished ranking minority member of the subcommittee and of the full committee, Mr. McKinney.

Mr. MCKINNEY. Thank you, Mr. Chairman. I have no formal statement. I look forward to the testimony today, and I probably will suggest to the Chair, as I have stated, that we have another day or two of hearings on some of these issues. The financial status of the District and the bonding situation, as we all know, for far too long have been in confusion, and I look forward to somehow or another getting that solved so that the city can proceed in some normal fashion.

I apologize to the witnesses for being a little late this morning, but Connecticut seems to get very far away on a Monday morning because nobody wants to move. But it's nice to be here.

Mr. FAUNTROY. Thank you so much, Mr. McKinney. We certainly want to accommodate your interests in a second hearing. I know that you, with me, want to make sure we complete this whole task by September 30, so that the city can move ahead.

At this time, I am submitting a letter for the record from Mayor Marion Barry, Jr., dated April 15, 1985, requesting the introduction of his financial package.

[The letter follows:]

THE DISTRICT OF COLUMBIA
WASHINGTON, D.C. 20004

MARION BARRY, JR.
MAYOR

April 15, 1985

The Honorable Walter Fauntroy
Delegate, District of Columbia
2135 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Fauntroy:

On behalf of the District of Columbia, I would like to formally request that you introduce three draft bills that together represent a "comprehensive financial plan" for the District of Columbia. Each of the bills comes about because of the very serious concerns that bond rating agencies have voiced in assessing the prospects of the District offering long term bonds.

The District's financial advisor has told us of several factors that combine to significantly downrate our long term bond offerings: unfunded pension liability arising from our status as a federal entity; limitations on the District's taxing authority; the lack of a formula federal payment; a large outstanding capital debt to the U.S. Treasury; a large accumulated general fund deficit; and the District's lack of governmental sovereignty. The three bills that we have drafted address most of these points.

During the week of March 26, Deputy Mayor for Finance, Alphonse Hill, our financial advisor and Pauline Schneider met separately with Senate and House staff and described our financial situation. We have since delivered copies of the actual credit rating reports to supplement the draft legislation and financial advisor's review of the need for the changes.

We regard each of these bills as extremely important to the future of the District of Columbia and would be most grateful for your assistance in introducing them in the House of Representatives. If any of my staff can be of help in further preparing this legislation for introduction, please contact Pauline Schneider at 727-6265.

Sincerely,

Marion Barry, Jr.
Mayor

Mr. FAUNTROY. The first witness this morning is deputy mayor for finance, Alphonse D. Hill.

Mr. Hill, it's a real pleasure to have you again before the subcommittee. We have your prepared testimony, and you may proceed in whatever manner you choose. We look forward to your presentation, and we'd appreciate your identifying the witnesses who accompany you at the witness table.

STATEMENT OF ALPHONSE G. HILL, DEPUTY MAYOR FOR FINANCE, DISTRICT OF COLUMBIA GOVERNMENT, ACCOMPANIED BY MELVIN W. JONES, DIRECTOR OF FINANCE AND REVENUE, DISTRICT OF COLUMBIA; BILLY D. COOK, ASSOCIATE DIRECTOR; FRANKLIN RAINES, LAZARD FRERES & CO.; AND JIM DYKES, SIDLEY & AUSTIN

Mr. HILL. Good morning, Mr. Chairman and Mr. McKinney. Thank you.

With me this morning is Jim Dykes, our bond counsel, from Sidley & Austin; Franklin Raines from Lazard Freres, our financial adviser; Mel Jones, who is the director of finance and revenue for the District of Columbia; and Dr. Billy Cook, who is our chief economist for revenue in the District of Columbia.

I appreciate this opportunity to appear on behalf of Mayor Barry to provide the views of the executive branch of the District on the four bills being considered today.

H.R. 2641, 2642, and 2643 were, as you said, introduced at the District's request; H.R. 2947 has been introduced; and these bills are substantially similar in their goals and reflect concerns by elected officials of the District that the Home Rule Act still contains substantial impediments to the District's ability to take full advantage of long- and short-term financing in the Nation's Capital markets. I will elaborate on that statement with a little background.

I believe the committee has seen the letter from Lazard Freres, Mr. Raines, and in that letter it is concluded that, while the District has made substantial strides since home rule to get its financial house in order and has in its bond issues provided security to bondholders which made the District's long-term debt among the most secure municipal bonds available in the country—and that's a quote from Mr. Raines' letter—certain factors remain, however, that adversely affect the District's ability to achieve long-term financing at rates of interest as attractive as those we might have obtained in the absence of those factors.

In our short experience of financing our capital needs publicly, it had been made clear to us through rating received from the national rating agencies as well as from comments from others in the financial community that the District would continue to be penalized by lower bond ratings and correspondingly high rates of interest on our long-term financing until those negative factors were resolved.

Gentlemen, I submit to you that this extra burden to the residents of our Nation's Capital is unfair and inequitable. District residents deserve an equal chance to compete in our capital markets for funds.

These inequities are highlighted by the comments you, Mr. Chairman, made and those items specified in Lazard Freres' letter, and we have heard more concerns from Standard and Poors and Moody's, our two nationally recognized rating agencies. I will not repeat those, because I think we know what they are, and we have heard them. However, the bills introduced at the District's request that are before the committee today are efforts on our part to resolve those negative factors. Let me describe how they would do so.

The view generally held of the District as a highly taxed jurisdiction was verified repeatedly by analysts evaluating our creditworthiness. In large part, this is due to the fact that our tax base is extremely restricted by virtue of our status as the Nation's Capital. This status requires a large percentage of the real property in the District to be exempt from taxation because of its use by the Federal Government or by foreign governments for diplomatic purposes.

We also acknowledge the basis for exempting educational, charitable, and religious property from taxation, most of which occurred due to an act of Congress. However, these restrictions make it more imperative that other avenues of raising revenue be left open to us.

The District's rates of personal income taxation are among the highest in the Nation. They certainly are higher than those in our neighboring States. Yet, income earned by more than 60 percent of persons employed in the District goes untaxed because of the limitation in the Home Rule Act prohibiting the District from taxing the income of nonresidents.

In the eyes of the municipal credit analysts, that prohibition not only denies the District a source of revenue commonly tapped by urban centers of metropolitan areas, but it also provides evidence in support of their general concern that Congress' activity in local legislation often derives more from concerns of nonresidents than those of the citizens and the taxpayers of the District.

Recognition must be taken of the fact that a substantial portion of the services provided by the District are for the benefit of nonresident workers. It is only fair that they pay a portion of the cost of those services. Further, the ability to tax the income of nonresidents would allow us to stabilize the tax burden of other taxpayers, making the District more attractive to businesses and middle-class residents.

Finally, no one believes it necessary to tax nonresidents to the same extent as residents are taxed. Therefore, we propose that the rate of tax on the income of nonresidents be capped at 2 percent. At this rate, the District will collect less than $200 million, which is less than 8 percent of our annual budget.

The extent to which the Federal Government should be responsible for the cost of the District has been a matter of dispute virtually since the District of Columbia was established as the Nation's Capital. The basis for establishing a Federal payment has varied from no predictability at all, including absence of certainty from year to year that there would be a payment, to a legislative, established 50-50 sharing of cost by the District and Federal Government to the present system of establishing yearly a totally unpredictable lump sum payment via negotiations with the Office of Management and Budget.

Since the inception of home rule in the District, however, there has been one constant element to the Federal payment. While the amount has increased steadily, it has steadily declined as 1 percent of local revenues and of the District's operating budget.

We have attempted to stress to the rating agencies the increasing number of dollars we receive each year. They are more inclined to take the view that uncertainty over its level, coupled with growing Federal budgetary pressures, diminish the worth of the Federal payment as a long-term revenue source capable of being relied upon by bondholders.

Of special concern to the rating agencies is the amount of capital debt owed by the District. Between 1975 and 1985, outstanding general purpose capital loans from the U.S. Treasury increased from $840 million to $1.6 billion. Debt per capita in 1984 was more than $2,600 compared to an average of $795 for cities and $250 for States nationally. Debt as a percentage of the actual value of real property was 7.9 percent for the District in 1984 compared to an average of 4.5 percent for cities and 1.1 for States.

When those portions of the District's debt attributable to the water and sewer enterprise fund and to metro capital expenses are added in, the District's debt figures are even more out of line with those of other cities and States.

As one financial analyst noted in his assessment of the District in something of an understatement, "Such debt figures do not compare favorably with any other municipal entity, be it a city, county, or State." With capital improvement plans calling for an additional $1 billion in long-term debt by the end of 1990, the picture is not likely to improve soon on its own.

The District has always maintained a high level of capital spending. This is due in no small part to a desire to maintain the city's capital infrastructure at a level that suits the seat of the National Government. A substantial portion of capital expenditures are made to keep the physical plant of the city at a level required to serve the increased daytime population, swelled by commuters and tourists, rather than at a level necessary for a city of 630,000 people.

Also, debt service requirements imposed by the Treasury on its loans, including above-market rates of interest and mandatory 30-year amortization, mean that the District must pay higher annual debt service, for a more extended period of time, than it would had its debt financing been under its own control.

A large, accumulating operating deficit is one of the worse negatives a municipality can acquire and is viewed as a sign of real fiscal distress. As a result of the District's first audit in 1980, it was determined that the city then had in the general fund an accumulated operating deficit of $378 million, all of which was incurred either prior to home rule or before the elimination of federally imposed accounting methods and the adoption of generally accepted accounting principles. To date, the District has eliminated $108 million, or almost 30 percent, of the accumulated deficit through budgetary allocation. The total elimination of the accumulated deficit is crucial to the District's long-term credit standing.

In the past, the District has proposed several methods to eliminate the deficit entirely. The one raised most consistently and that

is most equitable is to eliminate the accumulated deficit by funding one-third in annual budgets, issuing debt to fund one-third, and obtaining Federal moneys to fund the remaining third. The Federal Government both refuses to authorize the District to incur debt for deficit funding purposes and also refuses to make any payments toward eliminating the deficit.

One of the more surprising concerns voiced by the rating agencies was one we refer to by the catch-all term of sovereignty. It is meant to account for the range of factors implemented by the role of the Federal Government in the administration of the District's routine affairs. In the context of discussions regarding the District's ability to make good on debts 30 years from now, the relative involvement of the Federal Government is especially important.

Rating agencies are generally of the view that, because of powers of taxation and other factors that contribute to a broad revenue base, States are better credit risks than cities. As a result, States usually have higher credit ratings than do cities.

We attempted to argue that the District's taxing authority is virtually limitless and that, as a result, we were much more like a State as a credit risk. Despite our best efforts, both rating agencies took note of what they characterized as our lack of State sovereignty and our less than total control over the sources of our taxes as credit negatives.

Again, the inability to tax nonresident income and substantial portions of real property by Federal decree affected those conclusions. Perhaps more importantly, the plenary legislative authority of Congress over the District was also of tremendous concern. One rating agency noted that the District's charter "may be altered by an act of Congress."

By clear implication, they were stating that the same was true of a local act authorizing the issuance of debt. One analyst suggested that the delay of more than 1 year by Congress in resolving the threat to the District caused by the *Chadha* decision suggested less than total concern with the District's well-being and even ambivalence about the future of home rule.

There exists a clear concern in the minds of some analysts that the continued, active involvement in the legislative and financial affairs of the District by Congress, an elected body not responsible to the citizens of the District, could result in actions that may upset the carefully worked out arrangements contained in a bond act and the promises made to bond purchasers. Since bondholders must rely on the guarantees and contractual terms contained in bond acts and in bonds themselves for 20 to 30 years, any indication that they may be interfered with is a credit negative of tremendous significance.

We have proposed legislative solutions to each of the problems I have just discussed in the form of H.R. 2641, H.R. 2642, and H.R. 2643. H.R. 2641 would amend the Home Rule Act to authorize and appropriate the payment by the Federal Government of $13.45 million in each of the next 10 years, or a total of $134.5 million, as the Federal contribution to the elimination of the accumulated general fund deficit. That bill would also authorize the imposition of a tax,

not in excess of 2 percent, on the personal income of nonresidents who work in the District.

H.R. 2642 would amend the Home Rule Act to authorize the District to spend funds in the amount authorized by the President's budget if Congress fails to enact the budget for the District by October 1. That bill would also establish a formula for permanently determining the amount of the Federal payment as an amount equal to 35 percent of local tax revenue as determined in the most recent audited financial report. It also contains a provision requiring the Mayor to budget to offset any deficit determined to have occurred in the general fund as a means of preventing the growth of new deficits once the existing one had been eliminated.

H.R. 2643 is primarily intended to improve the debt issuance process. Most of its provisions are technical. It does, however, contain three more substantive provisions. If enacted, H.R. 2643 would eliminate the 30-day congressional review period for bond and note acts, authorize the issuance of bonds to fund the accumulated general fund deficit, and enact into law a pledge by the United States to bondholders to do nothing to impair the obligations of the District to bondholders or to impair the power of the District to fulfill its responsibilities and covenants to bondholders.

I have already discussed the reasoning behind our attempt to gain authority to issue deficit funding bonds. Let me say a few words about the other substantive provisions of H.R. 2643.

The elimination of the 30-day layover requirement and the Federal pledge are attempts to address the sovereignty concerns raised by the rating agencies. The requirement for congressional review of District bond and note acts has little practical basis. The requirements of section 103 of the Internal Revenue Code, the views of the market, and review by bond counsel, the underwriters involved, and our own corporation counsel are ample protection against any imprudent, illegal, or financially insecure financing.

Moreover, general obligation bond acts merely authorize financing for capital projects that have already been authorized and approved by the Council of the District and the Congress via the budget process. Having approved the project, it would be irresponsible not to approve the bond act to finance those projects.

The only effect of the 30-day layover of bond acts then, which, because of Congress' schedule, can become 60 or more days is the delay of the District's orderly financing of its capital program. Since interest rates can change on a daily or weekly basis, the unnecessary addition of a 30-day delay to the financing process can result in higher rates and more costly debt. Congress has already eliminated the layover requirement for note acts but no adverse consequences. It should do the same for bond acts.

The covenant of the United States to refrain from interfering with the District's obligation to bondholders is an effort to assure potential bond purchasers that they will be protected from intentional or inadvertent interference with their expectations of repayment by the action of Congress. It in no way attempts to expand the authority of the District or to limit the legislative authority of Congress over the District. Its enactment would tremendously enhance the view of the District as a credit risk.

H.R. 2947, which is substantially the same bill as H.R. 2643, differs primarily by the absence of such covenant language. Instead, H.R. 2947 contains a statement of finding and purposes that appears to attempt the same result as the covenant language.

We read the findings and purposes of H.R. 2947 as an expression by the Congress of an intent to refrain from interfering with the District's obligations to bondholders to the fullest extent possible. Assuming we are correct in that reading and assuming further that the report of the committee affirms that reading, we would consent to the withdrawal of H.R. 2643 in favor of H.R. 2947.

The remainder of the provisions of H.R. 2643 are primarily attempts to improve the process by which the District now issues debt; to authorize the District to take advantage of alternative financing techniques being used by other cities and States, such as letters of credit or other credit enhancements or variable rate debt that can reduce the costs of the District's borrowings; to clarify security or other provisions contained in current law; or to expand existing protections available to one type of debt to all debt that the District might issue. We think that the enactment of H.R. 2643 will result in stronger protection for the purchasers of District debt and less cost to District taxpayers for such debt.

Mr. Chairman, the Mayor and other District officials have been coming here for years and sounding the alarm about the need to address the concerns that prompted H.R. 2641, H.R. 2642, and H.R. 2643. That was due, in part, to our inability to demonstrate tangible consequences of continued inaction. Frankly, the response has not been encouraging.

Now, however, with a history of borrowing in the capital markets and objective analyses of our credit posture, we can make a more persuasive case. We think that a prompt and decisive answer to the rating agencies' concerns makes a strong case for upgrading our bond ratings.

To give you a sense of the consequences that would have, we estimate that, had we issued the same amount of general obligation bonds in the past year, but with a triple A rating than the single A that we received from Standard and Poor's, we could have saved an average of nearly six-tenths of 1 percent in interest costs. The savings that would have resulted from all three issues would have been more than $31 million to the taxpayers of the District of Columbia.

We can now also point to a history of short-term public borrowing where, without the sort of credit negatives that exist to impair our long-term credit standing, the District received the highest rating available from both national rating agencies.

Mr. Chairman, all we seek through the enactment of the three bills you have submitted on our behalf is a level field upon which to compete. By and large, the problems the three bills address are either legacies from the period of Federal control of the District's finances or limitations faced by the District because of Congress' unique role in governing it.

Nor is there any justification for concerns that, without greater congressional supervision, the District's finances will fall into disarray. On our own, Mr. Chairman, we have accomplished four successive balanced budgets. We have received the certificate of con-

formance in financial reporting from the Government Finance Officers Association for 3 consecutive years. We have never missed a payment on our debt. We have, in the last year, paid back $277 million to the U.S. Treasury in capital project loans and ended our dependence on the Treasury for long- and short-term borrowing by financing more than $300 million of our capital needs by issuing our own securities. Those, I suggest, are substantial contributions on our part to reducing the Federal deficit.

The issuance of the District's first publicly sold debt has crystallized for us what remains to be done to accomplish financial home rule. There is no justification for continued intransigence by the Federal Government. Failure to act to resolve the problems that have been identified can only operate to the detriment of the financial viability of the District.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Hill follows:]

STATEMENT OF

ALPHONSE G HILL

DEPUTY MAYOR FOR FINANCE

OF THE

DISTRICT OF COLUMBIA

ON

H.R. 2641, H.R.2642, H.R. 2643

AND H.R. 2947

BEFORE THE SUBCOMMITTEE ON FISCAL AFFAIRS AND HEALTH

OF THE

COMMITTEE ON THE DISTRICT OF COLUMBIA

UNITED STATES HOUSE OF REPRESENTATIVES

9:00 A.M.

MONDAY, JULY 15, 1985

LONGWORTH HOUSE OFFICE BUILDING

GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. I APPRECIATE THIS OPPORTUNITY TO APPEAR ON BEHALF OF MAYOR BARRY TO PROVIDE THE VIEWS OF THE EXECUTIVE BRANCH OF THE DISTRICT ON THE FOUR BILLS BEING CONSIDERED TODAY. WITH ME TODAY ARE FRANK RAINES OF LAZARD FRERES & CO., FINANCIAL ADVISOR TO THE DISTRICT, AND JIM DYKE OF SIDLEY & AUSTIN, BOND COUNSEL TO THE DISTRICT. THEY ARE HERE TO ANSWER ANY QUESTIONS OF A TECHNICAL OR LEGAL NATURE THAT YOU MAY HAVE WITH RESPECT TO MY STATEMENT OR THE LEGISLATION YOU ARE CONSIDERING TODAY.

H.R. 2641, 2642 and 2643 WERE INTRODUCED AT THE DISTRICT'S REQUEST BY MR. FAUNTROY. H.R. 2947 WAS INTRODUCED BY MESSRS. FAUNTROY AND DELLUMS. THEY ARE SUBSTANTIALLY SIMILAR IN THEIR GOALS AND REFLECT CONCERNS BY THE ELECTED OFFICIALS OF THE DISTRICT THAT THE HOME RULE ACT STILL CONTAINS SUBSTANTIAL IMPEDIMENTS TO THE DISTRICT'S ABILITY TO TAKE FULL ADVANTAGE OF LONG- AND SHORT-TERM FINANCING IN THE NATION'S CAPITAL MARKETS. I'LL ELABORATE ON THAT STATEMENT WITH A LITTLE BACKGROUND.

IN A LETTER DATED JANUARY 29, 1985, A COPY OF WHICH IS ATTACHED TO THE WRITTEN VERSION OF MY REMARKS, LAZARD FRERES & CO. PROVIDED US WITH AN ASSESSMENT OF OUR CREDITWORTHINESS AND PROSPECTS FOR FUTURE BORROWING. IN THAT LETTER, MR. RAINES CONCLUDED THAT WHILE THE DISTRICT HAD MADE SUBSTANTIAL STRIDES SINCE HOME RULE TO GET ITS FINANCIAL HOUSE IN ORDER, AND HAD, IN ITS BOND ISSUES, PROVIDED SECURITY TO BONDHOLDERS WHICH MADE THE DISTRICT'S LONG-TERM DEBT "AMONG THE MOST SECURE MUNICIPAL BONDS AVAILABLE IN THE COUNTRY" CERTAIN FACTORS REMAINED THAT ADVERSELY AFFECTED THE DISTRICT'S ABILITY TO ACHIEVE

LONG-TERM FINANCING AT RATES OF INTEREST AS ATTRACTIVE AS THOSE WE MIGHT HAVE OBTAINED IN THE ABSENCE OF THOSE FACTORS. IN OUR SHORT EXPERIENCE OF FINANCING OUR CAPITAL NEEDS PUBLICLY, IT HAD BEEN MADE CLEAR TO US, THROUGH RATINGS RECEIVED FROM THE NATIONAL RATINGS AGENCIES AS WELL AS FROM COMMENTS FROM OTHERS IN THE FINANCIAL COMMUNITY, THAT THE DISTRICT WOULD CONTINUE TO BE PENALIZED BY LOWER BOND RATINGS AND CORRESPONDINGLY HIGH RATES OF INTEREST ON OUR LONG-TERM FINANCINGS UNTIL THOSE NEGATIVE FACTORS WERE RESOLVED.

SPECIFICALLY, LAZARD FRERES SUMMARIZED THE RATINGS AGENCIES' CONCERNS AS FOLLOWS:

(1) THE TREMENDOUS UNFUNDED LIABILITY IN THE DISTRICT'S PENSION SYSTEM, AND THE FEDERAL GOVERNMENT'S CONTINUING FAILURE TO ADDRESS THE $3 BILLION OF THAT DEFICIT THAT ACCRUED PRIOR TO HOME RULE;

(2) THE PROHIBITION CONTAINED IN THE HOME RULE ACT AGAINST THE IMPOSITION OF AN INCOME TAX ON THE INCOME EARNED IN THE DISTRICT BY NON-RESIDENTS, AN ESTIMATED TWO-THIRDS OF ALL INCOME EARNED IN THE DISTRICT;

(3) THE DECLINING PERCENTAGE OF DISTRICT REVENUES REPRESENTED BY THE ANNUAL FEDERAL PAYMENT, AND THE FAILURE OF THE FEDERAL GOVERNMENT TO REACH AGREEMENT WITH THE DISTRICT ON AN ADEQUATE AND PREDICTABLE FORMULA BASIS FOR THE FEDERAL PAYMENT;

(4) THE LARGE AMOUNT OF EXPENSIVE DEBT TO THE UNITED STATES TREASURY, A SUBSTANTIAL PORTION OF WHICH WAS INCURRED PRIOR TO HOME RULE;

(5) THE LARGE, ACCUMULATED GENERAL FUND DEFICIT WHICH ACCRUED DURING THE PERIOD OF FEDERAL CONTROL OF THE DISTRICT'S FINANCES OR WHILE THE DISTRICT WAS SUBJECT TO FEDERAL BUDGETARY AND ACCOUNTING PROCEDURES;

(6) CONCERNS OVER THE DISTRICT'S RELATIVE LACK OF SOVEREIGNTY, AND THE POSSIBILITY THAT CONGESSIONAL INVOLVEMENT IN THE DISTRICT'S BUDGETARY AND FINANCIAL AFFAIRS COULD BE DETRIMENTAL TO THE INTERESTS OF BONDHOLDERS OR THE DISTRICT'S STANDING IN THE MARKETPLACE.

THE BILLS INTRODUCED AT THE DISTRICT'S REQUEST THAT ARE BEFORE THE COMMITTEE TODAY ARE EFFORTS ON OUR PART TO RESOLVE THOSE NEGATIVE FACTORS. LET ME DESCRIBE HOW THEY WOULD DO SO.

THE VIEW GENERALLY HELD OF THE DISTRICT AS A HIGHLY TAXED JURISDICTION WAS VERIFIED REPEATEDLY BY ANALYSTS EVALUATING OUR CREDITWORTHINESS. IN LARGE PART, THIS IS DUE TO THE FACT THAT OUR TAX BASE IS EXTREMELY RESTRICTED BY VIRTUE OF OUR STATUS AS THE NATION'S CAPITAL. WE ACCEPT THAT THAT STATUS NECESSARILY REQUIRES A LARGE PERCENTAGE OF THE REAL PROPERTY IN THE DISTRICT TO BE EXEMPT FROM TAXATION BECAUSE OF ITS USE BY THE FEDERAL GOVERNMENT OR BY FOREIGN GOVERNMENTS FOR DIPLOMATIC PURPOSES. WE ALSO ACKNOWLEDGE THE BASIS FOR EXEMPTING EDUCATIONAL, CHARITABLE AND RELIGIOUS PROPERTY FROM

TAXATION, MOST OF WHICH OCCURRED DUE TO AN ACT OF CONGRESS. HOWEVER, THOSE RESTRICTIONS MAKE IT MORE IMPERATIVE THAT OTHER AVENUES OF RAISING REVENUE BE LEFT OPEN TO US.

THE DISTRICT'S RATES OF PERSONAL INCOME TAXATION ARE AMONG THE HIGHEST IN THE NATION. THEY CERTAINLY ARE HIGHER THAN THOSE IN OUR NEIGHBORING STATES. YET, INCOME EARNED BY MORE THAN 60% OF PERSONS EMPLOYED IN THE DISTRICT GOES UNTAXED BECAUSE OF THE LIMITATION IN THE HOME RULE ACT PROHIBITING THE DISTRICT FROM TAXING THE INCOME OF NON-RESIDENTS. IN THE EYES OF MUNICIPAL CREDIT ANALYSTS, THAT PROHIBITION NOT ONLY DENIES THE DISTRICT A SOURCE OF REVENUE COMMONLY TAPPED BY URBAN CENTERS OF METROPOLITAN AREAS, BUT IT ALSO PROVIDES EVIDENCE IN SUPPORT OF THEIR GENERAL CONCERN THAT CONGRESS' ACTIVITY IN LOCAL LEGISLATION OFTEN DERIVES MORE FROM CONCERNS OF NON-RESIDENTS THAN THOSE OF THE CITIZENS OF THE DISTRICT. RECOGNITION MUST BE TAKEN OF THE FACT THAT A SUBSTANTIAL PORTION OF THE SERVICES PROVIDED BY THE DISTRICT ARE FOR THE BENEFIT OF NON-RESIDENT WORKERS. IT IS ONLY FAIR THAT THEY PAY A PORTION OF THE COST OF THOSE SERVICES. FURTHER, THE ABILITY TO TAX THE INCOMES OF NON-RESIDENTS WOULD ALLOW US TO REDUCE THE TAX BURDEN OF OTHER TAX PAYERS, MAKING THE DISTRICT MORE ATTRACTIVE TO BUSINESSES AND MIDDLE CLASS RESIDENTS. FINALLY, NO ONE BELIEVES IT NECESSARY TO TAX NON-RESIDENTS TO THE SAME EXTENT AS RESIDENTS ARE TAXED. WE PROPOSE THAT THE RATE OF TAX ON THE INCOME OF NON-RESIDENTS BE CAPPED AT 2%. EVEN AT THAT RATE, THE DISTRICT STANDS TO REALIZE AN ESTIMATED $154 TO $184 MILLION.

THE EXTENT TO WHICH THE FEDERAL GOVERNMENT SHOULD BE RESPONSIBLE FOR THE COSTS OF THE THE DISTRICT HAS BEEN A MATTER OF DISPUTE VIRTUALLY SINCE THE DISTRICT OF COLUMBIA WAS ESTABLISHED AS THE NATION'S CAPITAL. THE BASIS FOR ESTABLISHING A FEDERAL PAYMENT HAS VARIED FROM NO PREDICTABILITY AT ALL, (INCLUDING ABSENCE OF CERTAINTY FROM YEAR TO YEAR THAT THERE WOULD BE A PAYMENT), TO A LEGISLATIVELY ESTABLISHED 50-50 SHARING OF COSTS BY THE DISTRICT AND FEDERAL GOVERNMENTS, TO THE PRESENT SYSTEM OF ESTABLISHING YEARLY A TOTALLY UNPREDICTABLE LUMP-SUM PAYMENT. SINCE THE INCEPTION OF HOME RULE IN THE DISTRICT, HOWEVER, THERE HAS BEEN ONE CONSTANT ELEMENT TO THE FEDERAL PAYMENT; WHILE THE AMOUNT HAS INCREASED STEADILY, IT HAS STEADILY DECLINED AS A PERCENT OF LOCAL REVENUES AND OF THE DISTRICT'S OPERATING BUDGET. WE HAVE ATTEMPTED TO STRESS TO THE RATINGS AGENCIES THE INCREASING NUMBER OF DOLLARS WE RECEIVE EACH YEAR. THEY ARE MORE INCLINED TO TAKE THE VIEW THAT UNCERTAINTY OVER ITS LEVEL, COUPLED WITH GROWING FEDERAL BUDGETARY PRESSURES, DIMINISH THE WORTH OF THE FEDERAL PAYMENT AS A LONG-TERM REVENUE SOURCE CAPABLE OF BEING RELIED UPON BY BONDHOLDERS.

OF SPECIAL CONCERN TO THE RATINGS AGENCIES IS THE AMOUNT OF CAPITAL DEBT OWED BY THE DISTRICT. BETWEEN 1975 AND 1985 OUTSTANDING GENERAL PURPOSE CAPITAL LOANS FROM THE UNITED STATES TREASURY INCREASED FROM $843 MILLION TO $1.641 BILLION. DEBT PER CAPITA IN 1984 WAS MORE

THAN $2,600, COMPARED TO AN AVERAGE OF $795 FOR CITIES AND $250 FOR STATES NATIONALLY. DEBT AS A PERCENTAGE OF THE ACTUAL VALUE OF REAL PROPERTY WAS 7.9% FOR THE DISTRICT IN 1984, COMPARED TO AN AVERAGE OF 4.5% FOR CITIES AND 1.1% FOR STATES. WHEN THOSE PORTIONS OF THE DISTRICT'S DEBT ATTRIBUTABLE TO THE WATER AND SEWER ENTERPRISE FUND AND TO METRO CAPITAL EXPENSES ARE ADDED IN, THE DISTRICT'S DEBT FIGURES ARE EVEN MORE OUT OF LINE WITH THOSE OF OTHER CITIES AND STATES. AS ONE FINANCIAL ANALYST NOTED IN ITS ASSESSMENT OF THE DISTRICT, IN SOMETHING OF AN UNDERSTATEMENT, "SUCH DEBT FIGURES DO NOT COMPARE FAVORABLY WITH ANY OTHER MUNICIPAL ENTITY, BE IT A CITY, COUNTY OR STATE." WITH CAPITAL IMPROVEMENT PLANS CALLING FOR AN ADDITIONAL $1 BILLION IN LONG-TERM DEBT BY THE END OF 1990, THE PICTURE IS NOT LIKELY TO IMPROVE SOON ON ITS OWN.

THE DISTRICT HAS ALWAYS MAINTAINED A HIGH-LEVEL OF CAPITAL SPENDING. THIS IS DUE IN NO SMALL PART TO A DESIRE TO MAINTAIN THE CITY'S CAPITAL INFRASTRUCTURE AT A LEVEL THAT SUITS THE SEAT OF THE NATIONAL GOVERNMENT. A SUBSTANTIAL PORTION OF CAPITAL EXPENDITURES ARE MADE TO KEEP THE PHYSICAL PLANT OF THE CITY AT A LEVEL REQUIRED TO SERVE THE INCREASED DAYTIME POPULATION, SWELLED BY COMMUTERS AND TOURISTS, RATHER THAN AT A LEVEL NECESSARY FOR A CITY OF 630,000. ALSO, DEBT SERVICE REQUIREMENTS IMPOSED BY THE TREASURY ON ITS LOANS, INCLUDING ABOVE-MARKET RATES OF INTEREST AND MANDATORY 30-YEAR AMORTIZATION, MEAN THAT THE DISTRICT MUST PAY HIGHER ANNUAL DEBT SERVICE, FOR A MORE EXTENDED PERIOD OF TIME, THAN IT WOULD HAD ITS DEBT FINANCING BEEN UNDER ITS OWN CONTROL.

A LARGE, ACCUMULATED OPERATING DEFICIT IS ONE OF THE WORST NEGATIVES A MUNICIPALITY CAN ACQUIRE, AND IS VIEWED AS A SIGN OF REAL FISCAL DISTRESS. AS A RESULT OF THE DISTRICT'S FIRST AUDIT IN 1980, IT WAS DETERMINED THAT THE CITY THEN HAD IN THE GENERAL FUND AN ACCUMULATED OPERATING DEFICIT OF $378 MILLION, ALL OF WHICH WAS INCURRED EITHER PRIOR TO HOME RULE OR BEFORE THE ELIMINATION OF FEDERALLY IMPOSED ACCOUNTING METHODS AND THE ADOPTION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. TO DATE, THE DISTRICT HAS ELIMINATED $108 MILLION, OR ALMOST 30%, OF THE ACCUMULATED DEFICIT THROUGH BUDGETARY ALLOCATION. THE TOTAL ELIMINATION OF THE ACCUMULATED DEFICIT IS CRUCIAL TO THE DISTRICT'S LONG-TERM CREDIT STANDING.

IN THE PAST, THE DISTRICT HAS PROPOSED SEVERAL METHODS TO ELIMINATE THE DEFICIT ENTIRELY. THE ONE RAISED MOST CONSISTENTLY, AND THAT IS MOST EQUITABLE, IS TO ELIMINATE THE ACCUMULATED DEFICIT BY FUNDING ONE-THIRD IN ANNUAL BUDGETS, ISSUING DEBT TO FUND ONE-THIRD, AND OBTAINING FEDERAL MONEYS TO FUND THE REMAINING THIRD. THE FEDERAL GOVERNMENT BOTH REFUSES TO AUTHORIZE THE DISTRICT TO INCUR DEBT FOR DEFICIT FUNDING PURPOSES AND ALSO REFUSES TO MAKE ANY PAYMENTS TOWARD ELIMINATING THE DEFICIT.

ONE OF THE MORE SURPRISING CONCERNS VOICED BY THE RATINGS AGENCIES WAS ONE WE REFER TO BY THE CATCHALL TERM OF "SOVEREIGNTY." IT IS MEANT TO ACCOUNT FOR THE RANGE OF FACTORS IMPLICATED BY THE ROLE OF THE FEDERAL GOVERNMENT IN THE ADMINISTRATION OF THE DISTRICT'S

ROUTINE AFFAIRS. IN THE CONTEXT OF DISCUSSIONS REGARDING THE DISTRICT'S ABILITY TO MAKE GOOD ON DEBTS THIRTY YEARS FROM NOW, THE RELATIVE INVOLVEMENT OF THE FEDERAL GOVERNMENT IS ESPECIALLY IMPORTANT.

RATINGS AGENCIES ARE GENERALLY OF THE VIEW THAT, BECAUSE OF POWERS OF TAXATION AND OTHER FACTORS THAT CONTRIBUTE TO A BROAD REVENUE BASE, STATES ARE BETTER CREDIT RISKS THAN CITIES. AS A RESULT, STATES USUALLY HAVE HIGHER CREDIT RATINGS THAN DO CITIES. WE ATTEMPTED TO ARGUE THAT THE DISTRICT'S TAXING AUTHORITY IS VIRTUALLY LIMITLESS, AND THAT, AS A RESULT, WE WERE MUCH MORE LIKE A STATE AS A CREDIT RISK. DESPITE OUR BEST EFFORTS, BOTH RATINGS AGENCIES TOOK NOTE OF WHAT THEY CHARACTERIZED AS OUR LACK OF STATE SOVEREIGNTY AND OUR LESS THAN TOTAL CONTROL OVER THE SOURCES OF OUR TAXES AS CREDIT NEGATIVES. AGAIN, THE INABILTY TO TAX NON-RESIDENT INCOMES AND SUBSTANTIAL PORTIONS OF REAL PROPERTY BY FEDERAL DECREE AFFECTED THOSE CONCLUSIONS. PERHAPS MORE IMPORTANTLY, THE PLENARY LEGISLATIVE AUTHORITY OF CONGRESS OVER THE DISTRICT WAS ALSO OF TREMENDOUS CONCERN. ONE RATING AGENCY NOTED THAT THE DISTRICT'S CHARTER "MAY BE ALTERED BY AN ACT OF CONGRESS"; BY CLEAR IMPLICATION, THEY WERE STATING THAT THE SAME WAS TRUE OF A LOCAL ACT AUTHORIZING THE ISSUANCE OF DEBT. ONE ANALYST SUGGESTED THAT THE DELAY OF MORE THAN ONE YEAR BY CONGRESS IN RESOLVING THE THREAT TO THE DISTRICT CAUSED BY THE CHADHA DECISION SUGGESTED LESS THAN TOTAL CONCERN WITH THE DISTRICT'S WELL BEING AND EVEN AMBIVALENCE ABOUT THE FUTURE OF HOME RULE. THERE EXISTS A CLEAR

CONCERN IN THE MINDS OF SOME ANALYSTS THAT THE CONTINUED, ACTIVE INVOLVEMENT IN THE LEGISLATIVE AND FINANCIAL AFFAIRS OF THE DISTRICT BY CONGRESS, AN ELECTED BODY NOT RESPONSIBLE TO THE CITIZENS OF THE DISTRICT, COULD RESULT IN ACTIONS THAT MAY UPSET THE CAREFULLY WORKED OUT ARRANGEMENTS CONTAINED IN A BOND ACT, AND THE PROMISES MADE TO BOND PURCHASERS. SINCE BONDHOLDERS MUST RELY ON THE GUARANTEES AND CONTRACTUAL TERMS CONTAINED IN BOND ACTS AND IN BONDS THEMSELVES FOR 20 TO 30 YEARS, ANY INDICATION THAT THEY MAY BE INTERFERED WITH IS A CREDIT NEGATIVE OF TREMENDOUS SIGNIFICANCE.

WE HAVE PROPOSED LEGISLATIVE SOLUTIONS TO EACH OF THE PROBLEMS I HAVE JUST DISCUSSED IN THE FORM OF H.R. 2641, 2642 AND 2643. H.R. 2641 WOULD AMEND THE HOME RULE ACT TO AUTHORIZE AND APPROPRIATE THE PAYMENT BY THE FEDERAL GOVERNMENT OF $13.45 MILLION IN EACH OF THE NEXT TEN YEARS, OR A TOTAL OF $134.5 MILLION, AS THE FEDERAL CONTRIBUTION TO THE ELIMINATION OF THE ACCUMULATED GENERAL FUND DEFICIT. THAT BILL WOULD ALSO AUTHORIZE THE IMPOSITION OF A TAX, NOT IN EXCESS OF TWO PERCENT, ON THE PERSONAL INCOME OF NON-RESIDENTS WHO WORK IN THE DISTRICT. H.R. 2642 WOULD AMEND THE HOME RULE ACT TO AUTHORIZE THE DISTRICT TO SPEND FUNDS IN THE AMOUNT AUTHORIZED BY THE PRESIDENT'S BUDGET IF CONGRESS FAILS TO ENACT A BUDGET FOR THE DISTRICT BY OCTOBER 1ST. THAT BILL WOULD ALSO ESTABLISH A FORMULA FOR PERMANENTLY DETERMINING THE AMOUNT OF THE FEDERAL PAYMENT AS AN AMOUNT EQUAL TO 35% OF LOCAL TAX REVENUE AS DETERMINED IN THE MOST RECENT AUDITED FINANCIAL

REPORT. IT ALSO CONTAINS A PROVISION REQUIRING THE MAYOR TO BUDGET TO OFFSET ANY DEFICIT DETERMINED TO HAVE OCCURRED IN THE GENERAL FUND, AS A MEANS OF PREVENTING THE GROWTH OF NEW DEFICITS ONCE THE EXISTING ONE HAS BEEN ELIMINATED.

H.R. 2643 IS PRIMARILY INTENDED TO IMPROVE THE DEBT ISSUANCE PROCESS. MOST OF ITS PROVISIONS ARE TECHNICAL. IT DOES, HOWEVER, CONTAIN THREE MORE SUBSTANTIVE PROVISIONS. IF ENACTED H.R. 2643 WOULD:

- ELIMINATE THE THIRTY-DAY CONGRESSIONAL REVIEW PERIOD FOR BOND AND NOTE ACTS OF THE DISTRICT;

- AUTHORIZE THE ISSUANCE OF BONDS TO FUND THE ACCUMULATED GENERAL FUND DEFICIT;

- ENACT INTO LAW A PLEDGE BY THE UNITED STATES TO BONDHOLDERS TO DO NOTHING TO IMPAIR THE OBLIGATIONS OF THE DISTRICT TO BONDHOLDERS OR TO IMPAIR THE POWER OF THE DISTRICT TO FULFILL ITS RESPONSIBILITIES AND COVENANTS TO BONDHOLDERS.

I HAVE ALREADY DISCUSSED THE REASONING BEHIND OUR ATTEMPT TO GAIN AUTHORITY TO ISSUE DEFICIT FUNDING BONDS. LET ME SAY A FEW WORDS ABOUT THE OTHER TWO SUBSTANTIVE PROVISIONS OF H.R. 2643.

THE ELIMINATION OF THE THIRTY DAY LAYOVER REQUIREMENT AND THE FEDERAL PLEDGE ARE ATTEMPTS TO ADDRESS THE SOVEREIGNTY CONCERNS RAISED BY THE RATINGS AGENCIES. THE REQUIREMENT FOR CONGRESSIONAL REVIEW OF DISTRICT BOND AND NOTE ACTS HAS LITTLE PRACTICAL BASIS. THE REQUIREMENTS OF SECTION 103 OF THE INTERNAL REVENUE CODE, THE VIEWS OF THE MARKET AND REVIEW BY BOND COUNSEL, THE UNDERWRITERS INVOLVED AND OUR OWN CORPORATION COUNSEL ARE AMPLE PROTECTION AGAINST ANY IMPRUDENT, ILLEGAL OR FINANCIALLY INSECURE FINANCINGS. MOREOVER, GENERAL OBLIGATION BOND ACTS MERELY AUTHORIZE FINANCING FOR CAPITAL PROJECTS THAT HAVE ALREADY BEEN AUTHORIZED AND APPROVED BY THE COUNCIL OF THE DISTRICT AND THE CONGRESS. HAVING APPROVED THE PROJECT, IT WOULD BE IRRESPONSIBLE NOT TO APPROVE THE BOND ACT TO FINANCE THOSE PROJECTS. THE ONLY EFFECT OF THE THIRTY-DAY LAYOVER OF BOND ACTS, THEN, WHICH, BECAUSE OF CONGRESS' SCHEDULE, CAN BECOME SIXTY OR MORE DAYS, IS THE DELAY OF THE DISTRICT'S ORDERLY FINANCING OF ITS CAPITAL PROGRAM. SINCE INTEREST RATES CAN CHANGE ON A DAILY OR WEEKLY BASIS, THE UNNECESSARY ADDITION OF A THIRTY-DAY DELAY TO THE FINANCING PROCESS CAN RESULT IN HIGHER INTEREST RATES AND MORE COSTLY DEBT TO THE DISTRICT. CONGRESS HAS ALREADY ELIMINATED THE LAYOVER REQUIREMENT FOR NOTE ACTS, WITH NO ADVERSE CONSEQUENCES. IT SHOULD DO THE SAME FOR BOND ACTS.

THE COVENANT OF THE UNITED STATES TO REFRAIN FROM INTERFERING WITH THE DISTRICT'S OBLIGATION TO BONDHOLDERS IS AN EFFORT TO ASSURE POTENTIAL BOND PURCHASERS THAT THEY WILL BE PROTECTED FROM INTENTIONAL OR INADVERTENT INTERFERENCE WITH THEIR EXPECTATIONS OF REPAYMENT BY ACTION OF THE CONGRESS. IT IN NO WAY ATTEMPTS TO EXPAND THE AUTHORITY OF THE DISTRICT OR TO LIMIT THE LEGISLATIVE AUTHORITY OF CONGRESS OVER THE DISTRICT. ITS ENACTMENT WOULD TREMENDOUSLY ENHANCE THE VIEW OF THE DISTRICT AS A CREDIT RISK.

H.R. 2947, WHICH IS SUBSTANTIALLY THE SAME BILL AS H.R. 2643, DIFFERS PRIMARILY BY THE ABSENCE OF SUCH COVENANT LANGUAGE. INSTEAD, H.R. 2947 CONTAINS A STATEMENT OF FINDINGS AND PURPOSES THAT APPEARS TO ATTEMPT THE SAME RESULT AS THE COVENANT LANGUAGE. WE READ THE FINDINGS AND PURPOSES OF H.R. 2947 AS AN EXPRESSION BY THE CONGRESS OF AN INTENT TO REFRAIN FROM INTERFERING WITH THE DISTRICT'S OBLIGATIONS TO BONDHOLDERS TO THE FULLEST EXTENT POSSIBLE. ASSUMING WE ARE CORRECT IN THAT READING, AND ASSUMING FURTHER, THAT THE REPORT OF THE COMMITTEE AFFIRMS THAT READING, WE WOULD CONSENT TO THE WITHDRAWAL OF H.R. 2643 IN FAVOR OF H.R. 2947.

THE REMAINDER OF THE PROVISIONS OF H.R. 2643 ARE PRIMARILY ATTEMPTS TO IMPROVE THE PROCESS BY WHICH THE DISTRICT NOW ISSUES DEBT; TO AUTHORIZE THE DISTRICT TO TAKE ADVANTAGE OF ALTERNATIVE FINANCING TECHNIQUES BEING USED BY OTHER CITIES AND STATES, SUCH AS LETTERS OF

CREDIT OR OTHER CREDIT ENHANCEMENTS, OR VARIABLE RATE DEBT, THAT CAN REDUCE THE COSTS OF THE DISTRICT'S BORROWINGS; TO CLARIFY SECURITY OR OTHER PROVISIONS CONTAINED IN CURRENT LAW; OR TO EXPAND EXISTING PROTECTIONS AVAILABLE TO ONE TYPE OF DEBT TO ALL DEBT THAT THE DISTRICT MIGHT ISSUE. WE THINK THAT THE ENACTMENT OF H.R. 2643 WILL RESULT IN STRONGER PROTECTION FOR THE PURCHASERS OF DISTRICT DEBT AND LESS COST TO DISTRICT TAXPAYERS FOR SUCH DEBT.

MR. CHAIRMAN, THE MAYOR AND OTHER DISTRICT OFFICIALS HAVE BEEN COMING HERE FOR YEARS AND SOUNDING THE ALARM ABOUT THE NEED TO ADDRESS THE CONCERNS THAT PROMPTED H.R. 2641, 2642 AND 2643. FRANKLY, THE RESPONSE HAS NOT BEEN ENCOURAGING. THAT WAS DUE IN PART TO OUR INABILITY TO DEMONSTRATE TANGIBLE CONSEQUENCES OF CONTINUED INACTION. NOW, HOWEVER, WITH A HISTORY OF BORROWING IN THE CAPITAL MARKETS AND OBJECTIVE ANALYSES OF OUR CREDIT POSTURE, WE CAN MAKE A MORE PERSUASIVE CASE. WE THINK THAT A PROMPT AND DECISIVE ANSWER TO THE RATINGS AGENCIES CONCERNS MAKES A STRONG CASE FOR UPGRADING OUR BOND RATINGS. TO GIVE YOU A SENSE OF THE CONSEQUENCES THAT WOULD HAVE, WE ESTIMATE THAT, HAD WE ISSUED THE SAME AMOUNT OF GENERAL OBLIGATION BONDS IN THE PAST YEAR, BUT WITH A TRIPLE "A" RATING RATHER THAN THE SINGLE "A" THAT WE RECEIVED FROM STANDARD & POOR'S, WE COULD HAVE SAVED AN AVERAGE OF NEARLY SIX-TENTHS OF A PERCENT IN INTEREST COSTS. THE SAVINGS THAT WOULD HAVE RESULTED FROM ALL THREE

ISSUES WOULD HAVE BEEN MORE THAN $31 MILLION DOLLARS. WE CAN NOW ALSO POINT TO A HISTORY OF SHORT-TERM PUBLIC BORROWING WHERE, WITHOUT THE SORT OF CREDIT NEGATIVES THAT EXIST TO IMPAIR OUR LONG-TERM CREDIT STANDING, THE DISTRICT RECEIVED THE HIGHEST RATINGS AVAILABLE FROM BOTH NATIONAL RATINGS AGENCIES.

MR. CHAIRMAN, ALL WE SEEK THROUGH THE ENACTMENT OF THE THREE BILLS YOU HAVE SUBMITTED ON OUR BEHALF IS A LEVEL FIELD UPON WHICH TO COMPETE. BY AND LARGE, THE PROBLEMS THE THREE BILLS ADDRESS ARE EITHER LEGACIES FROM THE PERIOD OF FEDERAL CONTROL OF THE DISTRICT'S FINANCES, OR LIMITATIONS FACED BY THE DISTRICT BECAUSE OF CONGRESS' UNIQUE ROLE IN GOVERNING IT.

NOR IS THERE ANY JUSTIFICATION FOR CONCERNS THAT, WITHOUT GREATER CONGRESSIONAL SUPERVISION, THE DISTRICT'S FINANCES WILL FALL INTO DISARRAY. ON OUR OWN, MR. CHAIRMAN, WE HAVE ACCOMPLISHED FOUR SUCCESSIVE BALANCED BUDGETS. WE HAVE RECEIVED THE CERTIFICATE OF CONFORMANCE IN FINANCIAL REPORTING FROM THE GOVERNMENT FINANCE OFFICERS ASSOCIATION FOR THREE YEARS. WE HAVE NEVER MISSED A PAYMENT ON OUR DEBT. WE HAVE, IN THE LAST YEAR, PAID BACK $277 MILLION TO THE U.S. TREASURY IN CAPITAL PROJECT LOANS, AND ENDED OUR DEPENDENCE ON THE TREASURY FOR LONG AND SHORT-TERM BORROWING BY FINANCING MORE THAN $300 MILLION OF OUR CAPITAL NEEDS BY ISSUING OUR OWN SECURITIES. THOSE ARE SUBSTANTIAL CONTRIBUTIONS ON OUR PART TO REDUCING THE FEDERAL DEFICIT.

THE ISSUANCE OF THE DISTRICT'S FIRST PUBLICLY SOLD DEBT HAS CRYSTALIZED FOR US WHAT REMAINS TO BE DONE TO ACCOMPLISH FINANCIAL HOME RULE. THERE IS NO JUSTIFICATION FOR CONTINUED INTRANSIGENCE BY THE FEDERAL GOVERNMENT. FAILURE TO ACT TO RESOLVE THE PROBLEMS THAT HAVE BEEN IDENTIFIED CAN ONLY OPERATE TO THE DETRIMENT OF THE FINANCIAL VIABILITY OF THE DISTRICT.

Mr. FAUNTROY. I thank you, Mr. Hill.

Let me commend both you, the Mayor, and the Barry administration, together with your excellent financial advisers, not only for the very thorough audit conducted more than 5 years ago and the development of an ideal financial operating plan for the District but for an exemplary record in the past 5 years in implementing it, one that has made the District's financial system, I think, an instructive example for municipalities and States across this Nation. For that, you are to be commended.

You are to be commended as well for this very thorough, perceptive, and specific analysis of what now needs to be done to assure that we move into the mainstream of financing our governmental tasks with the tools which the rating agencies, after careful examination of our performance, feel we have to have.

So I appreciate all of the measures that you have suggested to the Congress, and I assure you they are going to get thorough consideration by this subcommittee and by the full committee.

Let me tender you a few questions.

First, what is the District of Columbia's current outstanding debt with regard to the general obligation bonds?

Mr. HILL. We have currently on our books—a clarification on the question, Mr. Chairman. Are you talking about just total bonds or Federal debt also, or just total debt?

Mr. FAUNTROY. Just the general obligation bonds.

Mr. HILL. $460 million, Mr. Chairman.

Mr. FAUNTROY. $460 million?

Mr. HILL. Right.

Mr. FAUNTROY. What do you feel is the District's borrowing capacity?

Mr. HILL. By charter, Mr. Chairman, I think we're restricted to 14 percent of the general fund revenue.

Mr. FAUNTROY. So that roughly this year would be—what?

If you want to take more time and submit that for the record, we'll allow it. I do want you to be precise, and I don't think you need to——

Mr. HILL. OK, Mr. Chairman. It's the way the question has come. There are several different ways. We can give you a more precise issue and calculate it arithmetically. So we will submit that one for the record.

Mr. FAUNTROY. All right. Good.

[The information follows:]

COMPUTATION OF LEGAL DEBT LIMITATION FOR THE DISTRICT OF COLUMBIA

[In thousands of dollars]

	Fiscal year—	
	1984	1985
Revenue:		
General fund:		
Local revenue	1,589,451	1,724,253
Federal payment	417,222	471,353
Water and sewer fund	117,788	144,521
Unadjusted revenue	2,124,461	2,340,127

COMPUTATION OF LEGAL DEBT LIMITATION FOR THE DISTRICT OF COLUMBIA—Continued

[In thousands of dollars]

	Fiscal year—	
	1984	1985
Less: court fees	−3,924	−4,353
Total adjusted revenue	2,120,537	2,335,774
Debt service ceiling (equal to 14 percent of total adjusted revenue)	296,875	327,008
Debt service:		
General fund:		
Principal retired	27,852	30,089
Interest	136,252	145,842
Water and Sewer fund:		
Principal retired	3,840	4,187
Interest expense	15,907	20,165
Interest capitalized	4,148	4,007
Total debt service	187,999	204,290
Percent of debt service to total adjusted revenue	8.9	8.8

Mr. FAUNTROY. Your proposal would allow the District to issue refunding bonds, of course. In light of concerns about this process in New York City in the 1970's, a concern which my colleague, Mr. McKinney, had a considerable role in addressing as a member of the Banking, Finance, and Urban Affairs Committee—in light of that experience, why do you feel refunding bonds should be made available to the District of Columbia?

Mr. HILL. I'll refer that to our financial adviser.

Mr. FAUNTROY. Yes.

Mr. RAINES. Mr. Chairman, the District is currently authorized to issue refunding bonds. This legislation would improve the ability to sell such bonds by permitting the District to respond to market conditions and to reduce its interest cost.

As an example, the District refunded a Treasury debt earlier this year when the market—by having foreseen the possibility of being able to do that, the District was able to mount a bond issue which substantially reduced the District's interest costs over a period of years.

I believe the situation in New York City was not one that really related to refunding but more to the issuance of a substantial amount of short-term debt as opposed to issuing long-term debt and simply rolling that debt over from year to year.

Under the charter, the District is prohibited from doing so, and all of its short-term debt for revenue anticipation purposes has to be paid off by the end of the fiscal year.

So the District would be unable to engage in the same practices that New York City engaged in.

Mr. FAUNTROY. Would this relate as well to the refinancing of our part of the accumulated deficit? When I say "our," I mean the District of Columbia's part of it.

Mr. RAINES. Yes; the bill would authorize the District to issue debt to repay the accumulated deficit, and the use of debt to repay an accumulated deficit has always been part of a solution in cities

that have had financial difficulties as opposed to part of the problem.

New York City had $6 billion of notes outstanding. Their problem was how to change those from all being due in 1 year to being due over 10 or 15 years so that they had a chance to pay them off.

New York was successful in refinancing all of that debt and stretching much of it out so that they were able to repay that outstanding accumulated deficit to the point that New York City now has eliminated its accumulated deficit; it no longer has one; and they had a $6 billion one in 1975.

The city of Cleveland had an accumulated deficit and used $30 million of bonds to refund that deficit. They have since restored their credit rating.

The Chicago school system had an accumulated deficit of in excess of $200 million and was able to fund that out over a period of years.

So the use of debt to fund accumulated deficits has been associated with the cure, as opposed to the cause, of the problem. It was the unwillingness of New York City to face up to the fact that it had an accumulated deficit that was their real problem.

Mr. MCKINNEY. Mr. Chairman, while you're on that line——

Mr. FAUNTROY. Yes, I'll yield to the gentleman from Connecticut.

Mr. MCKINNEY [continuing]. Could I just follow through with a couple of questions?

That was the secret of New York, and I must say that Frank's boss had a little bit to do with making those bonds acceptable to anybody—more than a little bit to do with it.

But could the city, under its charter, take short-term debt and transfer that into long-term debt by issuing bonds?

Mr. RAINES. No, because the District is limited in its use of long-term debt so that it is prohibited from renewing revenue anticipation notes beyond the end of the fiscal year. The only purpose for which it can use bonds to eliminate an accumulated deficit that existed prior to this fiscal year. So the only thing that could be stretched out is the current accumulated deficit.

If a new deficit were to occur, this legislation would not authorize the funding of that deficit. In fact, it would require the Mayor to budget to eliminate that deficit in the subsequent year.

So this is a very tightly drawn charter in that the District does not have the ability that a large number of jurisdictions do have that they can fund out any accumulated deficit.

Mr. MCKINNEY. That's interesting because that, of course, was one of the big traps of New York City. To find yourself $300 million, just pass some of John Mitchell's wonderful moral obligation bonds.

So they can't do that, and they can't bond for a current deficit. It seems to me, Mr. Chairman, that proves this is a pretty tight situation.

There is no way under the charter, I would assume then, that they could bond for current operating expenditures before the fact except through tax anticipatory bonds—right?

Mr. RAINES. Only tax anticipation notes, and they would have to be paid off during the fiscal year. So all you are really doing is using it for cash-flow.

Current operating expenses are not a defined capital project and would not be permitted to be funded.

Mr. MCKINNEY. I know with you watching the store and the deputy mayor for finance watching the store there won't be that wonderful transfer back and forth between capital accounts and operating accounts.

Mr. FAUNTROY. Thank you.

Mr. McKinney, feel free to take your time as questions occur to you.

I wonder if you could estimate for us the savings that the District of Columbia would realize were we able to refund our Treasury debt through the issuance of bonds.

Mr. HILL. We had estimated, Mr. Chairman, I believe in the last issue, which was refunding of $210 million, that we would save about $300 million over the life of those bonds. It's significant savings, Mr. Chairman, to the taxpayers of the District.

Mr. FAUNTROY. Would that be A or AAA rating?

Mr. HILL. That's just based on our current rating.

Mr. FAUNTROY. On the current rating?

Mr. HILL. Yes, because we're paying—this example is showing that we are paying extremely high rates to the Treasury.

Mr. FAUNTROY. I see.

Mr. HILL. So we are just reducing those rates.

Mr. FAUNTROY. So what you are saying is——

Mr. HILL. We would have saved more had we had a AAA; the saving would have been greater.

Mr. FAUNTROY. So that assuming passage of that which you have requested, not only would we receive a higher rating but substantially more in terms of savings for the District taxpayers and the Federal Government.

Mr. HILL. Yes—very good savings. I don't think Wall Street has seen these kinds of savings before.

Mr. FAUNTROY. I wonder if you would care to explain to me the substance of the proposed section 467(e), if you will?

Mr. HILL. Which bill, Mr. Chairman?

Mr. FAUNTROY. It's H.R. 2947.

Mr. HILL. What page is that section on?

Mr. FAUNTROY. It's on page 3, line 21, in your bill.

Mr. HILL. Thank you.

Mr. RAINES. Mr. Chairman, in H.R. 2947, is it on page 4?

Mr. FAUNTROY. Yes; you have the draft of mine—right?

Mr. RAINES. Line 9?

Mr. FAUNTROY. I would think so. I'm in the same shape as you now.

Mr. HOBSON. Page 5, line 13, in this text.

Mr. HILL. Mr. Chairman, that language basically allows us to use letters of credit or other types of credit enhancements which would approve our rating on issues that we go and try to refund or sell.

You will see a lot of institutions or cities or States that do not have AAA perhaps will get a letter of credit that will move that rating up from whatever they have to a better rating. I think we've seen a lot of that in IRV's.

Mr. FAUNTROY. OK. You propose striking section 466, which requires advertising in New York City and the District of Columbia

newspapers. It would be replaced with a new section 466 which would permit public or private sale of bonds, notes, and other obligations without previous advertisement. What is the purpose of this proposal?

Mr. RAINES. Mr. Chairman, as you mentioned in your opening statement, the ability of the District to sell its bonds on a negotiated basis expires at the end of this fiscal year because that provision is part of the Appropriations Act for fiscal year 1985. What this provision does is continue permanently the ability of the District to sell on a competitive or negotiated basis.

In the past year, the District has had three bond issues, one competitive and two negotiated, and it made a decision each time as to what was the best method from the standpoint of the District to sell those bonds. The first issue was $80 million, relatively small, appropriate for competitive issuance. The next two issues were substantially larger: $173 million and $210 million. A competitive sale would not have been as useful for those issues.

What the District is seeking here is the authority that most jurisdictions have which is to determine on a case-by-case basis whether you want to sell on a competitive basis, which simply means publishing a notice and hoping that bidders will show up or on a negotiated basis on which you select a group of underwriters to negotiate a sale. Both of them are methods that are used throughout the country.

The elimination of the specific publication requirement simply gives the District the discretion to determine where is the best place to publish. If the best place to publish turns out to be Chicago, the District would be able to publish in Chicago. It's meant simply to take the specificity out of the charter and leave it to what the market requires in terms of advertising.

Mr. MCKINNEY. You still must publish somewhere though—right?

Mr. RAINES. The bond act itself always would have to be published, and in a competitive sale you would have to make a publication. It may well turn out that the publication in some future day is not New York City.

Mr. FAUNTROY. All right. Both of the bond bills would substitute the phrase "bonds, notes, and other obligations" where the word "bonds" appears in current law. I wonder if you would care to define what "other obligations" here means?

Mr. RAINES. Over the last 10 or 15 years there has been a growth in the municipal market of calling obligations by different names. "Bonds" and "notes" have been the typical names that have been used, but also you have participation certificates, you have leasehold certificates; some things are just called obligations.

The purpose here is to include the full range of names that may be used and familiar in the market. It doesn't change the nature of the security. In these days, a note can be for 10 years and a bond can be for 2 years. What we used to think of as the great distinctions between those words have really broken down, and all this means to do is to say this includes anything the District may do. So anywhere there is a restriction, no matter what name you call it, it's there.

Also, any opportunities that are available to the District are there no matter what name you put on it, but it is not meant to substantively change the dimension of the District's ability, it's simply to permit the District to call things by the same thing that other people call them.

It's a similar provision that changes the name of the revenue anticipation notes, because the District technically is currently selling tax anticipation notes, and those are thought more highly of, but because the charter calls them revenue anticipation notes, the District has been forced to call its tax revenue anticipation notes so the market knows what you are really calling them.

This is, again, just an attempt to make the charter less specific in what is a very fluid and changing capital market without changing the substance. Those notes are exactly the same whether they are called revenue-anticipation notes or tax-anticipation notes. This permits the District to call them what they are.

Mr. FAUNTROY. I see.

You would amend section 467(c) by adding a sentence that, I think, needs some justification and explanation for us. You say, "No court shall waive, modify, or alter any security interest and lien created pursuant to this subsection." Would you explain that and justify it for us?

Mr. RAINES. Yes; Mr. Chairman, the purpose of this—and I'll speak to it from a financial standpoint, and Jim Dyke can speak to it from a legal standpoint. From a financial standpoint, the purpose of this is, the District has tried very hard to create a bond which it is clear to the bondholder that it will be repaid. The District has not tried to reserve the right in difficult times to not repay the bondholders because, in reality, that's their right without a great deal of substance to it.

There is a concern, because of the question on District sovereignty and residual powers the courts may have, that, in extremism, a court might feel that it wanted to reserve rights that even the elected officials of the District did not reserve.

The intent here is to make it clear that the security interest that is granted to the bondholders cannot be avoided through a lawsuit and that what the bond says it means, which is, the bondholders have a security interest in these taxes, and that the money will be used to pay them, and that it cannot be attacked in a court proceeding.

All this simply says is that the governing law that creates the District's bonding authority means what it says, that the District can give a security interest, that that security interest is in fact enforceable and cannot be overturned using residual powers of the court.

Jim.

Mr. DYKE. I think you've touched most bases. Basically, this is language, that we as bond counsels are comfortable with, that would help achieve the goal that Frank has outlaid, and that is to ensure enforceability of the collateral for the District's bondholders.

Mr. FAUNTROY. What is the purpose of section 490(h) with regard to the Securities Act of 1933?

Mr. DYKE. Basically, the short answer to that is to make sure that revenue bonds issued for for-profit entities are exempt from registration just as they are in other jurisdictions.

Mr. FAUNTROY. Industrial revenue bonds?

Mr. DYKE. Right.

Mr. FAUNTROY. All right.

Mr. Hill has stressed this in his testimony, but I'd like it reemphasized. What is the importance of repealing the congressional layover period for council bond acts?

Mr. RAINES. Mr. Chairman, the process of issuing a bond in the District of Columbia is the longest process that I know of that exists in the country, short of one that requires an election for the bonds, and even in some cases you can do an election much faster than the District can issue a bond.

To give you an example, several nonprofit institutions in the District came to the District over 1 year ago to being the process of doing industrial development bonds. Usually what happens is that you put in a great deal of work up front, you bring those to the elected officials who then approve the bond act, and then you go immediately to market.

The District is handicapped for two reasons. One, the District Council is not a simple city council. It acts more like a State legislature, which means that it's acting fundamental laws and has a procedure that's more akin to that of a legislature and more deliberative. So there is a longer legislative process at the local level and much more consideration than is normally given in most city councils.

When you add on to that the congressional layover process, which may last anywhere from 45 to 90 days, depending on District work periods, it means that someone looking for bonds in the District is looking at an extraordinarily long period of time to do those.

A second reason is that, when the District passed its bond act for fiscal year 1985, we thought that we were looking ahead and we were good planners, and we included in that bond act sufficient authority for the District's capital for 1985 and for what we thought would be bonds that could be easily refunded—Treasury loans that could be easily refunded during fiscal year 1985. No one foresaw that interest rates would plummet from a level of 11 percent down to 9 percent.

If the layover period did not exist, we would have gone back to the council to get the authority to sell additional refunding bonds and been able to do that in a fairly short period of time. As it is, that authority has to be included in the 1986 act, because by the time it's able to have got through the Congress, we will have missed this window.

When I began in this business, a volatile market was one in which, over a period of a year, interest rates moved from one-quarter to one-half of 1 percent. From the time that the District sold its capital money to the time we did the refunding, interest rates dropped by over a point in a 6-week period.

In order for the District to compete effectively in this market, the District has to be able to act nimbly. It has to be able to re-

spond to what is going on in the market. The current process is too long, I think, from everybody's standpoint.

Mr. MCKINNEY. I don't know if you are aware that Mr. Bliley has put in a bill which I have cosponsored with Mr. Parris, which is just a simple, basic bill. It takes congressional review from the bonding process out of the law, so that it can simply be done by the city council or by referendum, depending on which way it has to be done.

The reason I think Mr. Bliley put this in was that we totally agree with you. I mean, if we could be saving that 2 percent now or 3 percent, it would be incredible.

I'm hoping I can talk the chairman into letting us dash that simple thing through while we take a look at the big picture which goes on for a long way beyond that, because it seems to me that we could probably, on a District Day eliminate congressional review of bonding. I say that optimistically.

Mr. RAINES. Mr. McKinney, in terms of that provision, I think you may find that there are a number of others, if not most of the other, bond provisions that are of the same ilk, so that if there were an effort to try to identify those kinds of things, there are a number of those which I would assume are of consequence.

For example, there's one that requires Mr. Hill to go up and sign each and every one of these bonds. The last time, it was 18,000 bonds that he had to personally sign. I would think there would be little question that's something where there could be unanimous agreement that he shouldn't have to go up and do that.

Mr. MCKINNEY. He'll get so that he does it like I sign everything. You pay attention to everything except what you're signing. Then he's more dangerous than a machine.

Mr. FAUNTROY. OK. On that subject, in the Home Rule Act, we separate general obligation bonds from other bonds by section, and I noted that your bill combines them, and I note that the McKinney-Bliley bill as well separates subsections on the general obligation bonds, revenue bonds, and notes. I wonder if you would explain why you combined it?

Mr. RAINES. Mr. Chairman, I'm not sure I understand. The provision for nongeneral obligation bonds are all in section 490, and I don't believe that there has been a crossover.

Under 490, the District would sell any bond that was not a general obligation bond, including its own water and sewer bonds, which would be sold under section 490. It's housing bonds as well as the conduit issues for universities, hospitals, as well as for-profit industrial development bonds.

So the distinction remains because the District is expressly prohibited from using its general obligation to back any of those other kinds of bonds, and indeed the current bill has a provision that says that you can't even imply a general obligation; it's only if the council expressly gives the general obligation that that exists.

So I think our effort was really to try to maintain that distinction between the two.

Mr. FAUNTROY. All right. I have traditionally introduced the effort to repeal the limitation on nonresident tax, and I note that you have requested that we would authorize no more than a 2-per-

cent tax on nonresidents. Would you care to give us the rationale for the 2-percent figure?

Mr. RAINES. Mr. Chairman, there really were three points. One—this is a point that was constantly raised by the credit analysts—how can any government exempt 60 percent of its work force from taxation and hope to be able to meet its financial obligations over a long period of time?

There is no good answer to that question. There are very few other jurisdictions that do that. In fact, in the city of Cleveland, most of their income tax is paid by nonresidents.

The rationale for coming up with a limit was because, looking at some of the past debate, the comparisons had always been between taxing nonresidents at the same rate as the District residents. I've never heard anyone who really thought that was the appropriate way to go.

In most cities—for example, New York City—there is a separate tax for nonresidents that is much lower than the higher rate, and that seemed to be appropriate in the District, since it would be economically calamitous to raise the rate to that high a level.

So recognizing that reality, the District wanted to, for the first time, make it clear that there was no intent to impose a tax of that level and that the level would be comparable to other places, and 2 percent is comparable to nonresident taxes imposed in other jurisdictions.

Mr. HILL. Also, Mr. Chairman, I don't think we designed this tax to actually eliminate the taxing responsibility from the District residents. We're not trying to say that we'll get some money from nonresidents so we can reduce the taxes for the residents. I think we are trying to look at this as more a user concept: You pay for what you use.

Right now, the District residents have the responsibility to be taxed to pay for all the improvements on the 14th Street Bridge. All the residents of this city are going to keep that bridge in shape, in working condition, so a lot of the nonresidents can come across it. To me, there's somewhat an inequity there.

But we were not trying to design a tax that would replace the current tax level of the District residents. We are trying to design something where you pay for what you use, as a user kind of concept, and revenue that would come in would not reduce any taxes from current residents.

Mr. MCKINNEY. Mr. Chairman, as the original taker of hard knocks on this subject, I'd like to make a comment.

Gentlemen, as you are probably aware, I put in a bill to remove the prohibition on nonresident taxation the year after we got home rule through and have been wandering through that thicket before. It's just never going to happen.

I think we distract ourselves, as much as I may want it. I totally agree. In fact, I even once proposed—I see the good father back there—I even once proposed that churches might just pay a little tax for the roads in front of their churches, and I am opposed, even by the Reverend Fauntroy, on that one.

The only thing I'm trying to say—and this is a small hearing; there are only two of us up here, and I think we agree on almost everything—I think we've really got to look at political imperative,

the possible, and the not possible, so that in fact we don't confuse and make so obtuse the larger issue which is so important. Just, for instance, getting rid of congressional review of bonding is, to me, that important.

Just let me simply state, speaking as a surrogate for my two colleagues from Virginia, who sit to my left when they are here, and several others on this committee, not to mention, I think, a lot of other people across the street, it just isn't going to happen, so let's not distract ourselves with it.

I have a line of questioning later, which maybe I could go into now. It's a sort of theoretical morass. The city may want to answer it.

The District of Columbia—there is nothing else like it in the entire world, and it's unfortunate that it's here the way it is, but it's here. When we were doing New York City, I had the dubious joy of having to go to New York City every 90 days for the first 2 years and sit through presentations by Moody's and Standard and Poor's and slowly lose interest at the table.

So where is the point where the underwriters realize that the fact that there cannot be a commuter tax has nothing to do with the city government, it's just an immutable, it's there, it's like the pillar of salt that Lot's wife turned into. I think it was Lot's wife, wasn't it, Reverend?

Mr. FAUNTROY. Yes, it was Lot's wife, but I don't agree with you. [Laughter.]

Mr. MCKINNEY. I've been learning a lot of biblicals from Walter through the years.

The other thing is, when are they going to realize that we can put in—and I agree with you—I would like to see a statement of intent that Congress isn't going to muck around in this thing. But basic constitutional law put in a layman's term is that the Constitution of the United States, in reality, says that the Congress can abolish the District of Columbia the day after tomorrow, give it to Maryland, give it to Virginia, take it over, do whatever they want to do. Plus the fact that the historical constitutional imperative is that this Congress can do nothing that binds any other Congress in terms of just general law.

It seems to me that, somehow or other, these rating agencies have just got to realize that this is a unique little chicken here and treat it so. I can't see—with the District's financial record, which has been just massively improved, and the performance has been incredible and everything else—why, in God's name, if you take these three little areas where we have the problem, the city can't be a AAA instead of a BAA, because nothing is ever going to happen. We are not going to change the Constitution, we are not going to change the basic law, and you're not going to have a nonresident income tax—unfortunately, I add after that one. So there we are.

Mr. RAINES. Mr. Chairman, we have tried to take into account, as best as those of us who are financial people can, the political realities, but I think that there are a couple of points in which the market has spoken with an unmistakable tone to the District.

The market is perfectly prepared to deal with anomalies as long as those anomalies do not go to the financial fundamentals.

The District of Columbia is asking people to buy its debt and some of which will not be paid back for 20 to 30 years. In return, the bondholders are asking that there be a legally enforceable promise to pay it back, not even guarantee in the sense of some higher power or wealthier power guaranteeing it but a legally enforceable promise, and they expect that the District will be operated, now that it's in the bond market, in a manner that is consistent with the District being able to operate on a sound economic basis over that 20-year period.

The importance of nonresident tax in this case, and one of the reasons that we strongly suggested that the District reraise this issue, knowing full well its history and your role in it, was that it's important, I think, for the Congress to deal with the question of how the District's revenue system is to be made rational.

It would be understandable to the markets, I believe, if the Congress were to declare there shall never be a nonresident tax; however, because of that, we are going to compensate the District for that fact, and we'll compensate them in a way that takes into account what happens with the tax.

It's an easy thing for the market to understand if the Congress were to say, "We choose not to permit you to raise money in that way, but we choose to replace it over here." What people cannot understand is Congress saying, "We refuse to let you raise taxes on people who are working in your own jurisdiction to pay for your own expenses. On the other hand, we refuse to give you any money to replace that." What that says to people is that Congress is dealing on a political plain totally and not financially.

Mr. McKINNEY. Wouldn't we solve the whole thing, though, by the pragmatical political decision of a formula Federal payment which would then say to the financial seers—and you know, I have some problems with them, sitting on the Banking Committee, because I've always heard how sound everybody is, and then the next thing I know, I'm dashing up to Chicago, IL, looking at the biggest disaster I've ever seen in my life.

But if we just set a formula for the Federal payment, wouldn't we be saying to the financial world, "Well, you know there's not going to be a nonresident tax and nobody can take away Congress' constitutional rights and all the rest of this stuff, but Congress has stated they will give this formula payment to the city every year," and take that fog bank out of the thing. Wouldn't we really accomplish almost all those other good things?

Mr. HILL. Mr. McKinney, I think if you did four things you would accomplish some of those things. Out of the six that we've done here, which could happen, you have got to recall that it was this administration that put us out of the Treasury and we couldn't borrow.

If you were to have some kind of decision on the pension, which is a Federal action, if you had some kind of decision on the deficit, some kind of decision on the Federal formula payment, and some kind of decision on the Federal debt that we owe to the Federal Government, I think you would be sending the rating agencies and other people a message, but I think this is what they are saying, that Congress is doing one thing, the executive is doing another, and you're in a fishbowl.

Sure, I think we can probably move our rating up the scale from an A or BAA to perhaps AA, and any movement upward is a savings to the city. I think if Congress did something on those four things—I agree with you; I don't think we are going to get a commuter tax, but I think as an official of the District I have to do my fiduciary responsibility to the taxpayers to try, and I think we're doing that.

But I think there are some things that can be done that will send a message to Wall Street and the rating agencies that would impact on where we are and how we are maintaining the finances of the city.

Mr. McKINNEY. Alphonse, I've got to state one thing to protect my sanity here. I remember sitting in the District building at a long roundtable, or oval table, with the Vice President of the United States, Walter Mondale, the Mayor, Senator Mathias, and several other players—the chairman. We had the pension thing solved, and two OMB types sat over against the wall—I don't think either one of them was 30—and told the Vice President of the United States pretty much to go to blazes, they wouldn't accept it. And I said, "We'll be back," and here we are, and now it's part of your bond problem.

Enough said, Mr. Chairman.

Mr. RAINES. Mr. McKinney, one word on the covenant. A great deal of consideration and thought was given to that provision also with an intent not to try to alter the Constitution. The effort there is not so much to protect the existence of the District government. Clearly, the Congress has the authority to alter that government as long as the Constitution gives it the legislative authority over the District.

The question there, though, is, in changing the District of Columbia, does Congress have the authority, does it reserve the right, to impair the obligation to repay the debt? We have received opinion from bond counsel that the Congress, under the contract clause of the Constitution, is unable to do that.

The concern that was raised—and it was raised at a meeting of investors—was, what happens between the time Congress tries to do it and the time that the court holds that action to be unconstitutional? What happens to my bonds and what they are worth during that period of time?

Mr. McKINNEY. We as the District Committee, in fact, in fiddling with the disability pay and so on of the police and firemen, which you will probably remember, a while back—we pretty much stated unequivocally that you can't abrogate a Federal contract. You see, what I see is that if the Federal Government abrogates a contract, there is no contract that has any sanctity in the United States of America, because, after all, we are supposedly the be-all and end-all. And isn't it tacit approval of Congress that goes behind all of this because, in fact, we let it happen?

I'm not a lawyer, so you're taking me down a long road, but having sat on this committee for 15 years, I've been through this, and it seems to me the mere fact that it happened after home rule tacitly says the Federal Government agreed to it and had a contract that it could happen.

Mr. RAINES. Mr. Chairman, I think the ambiguity comes—and Mr. Hill mentioned it in his testimony—as many of the positives come up with this committee and Congress support for home rule, you have a negative, such as *Chadha*, an issue which should not have taken very long at all to have resolved; it took 1 year. What that says to the market is that Congress' intent may be at times ambiguous.

The effort here is to try to make the intent clear that if Congress wants the District to sell 20-year bonds, it's got to be prepared for the legal obligation to repay those bonds to exist for 20 years, and to reserve the right to pass legislation that would affect that obligation is, to me, reserving a right that doesn't currently exist.

What the covenant says is simply that the Congress recognizes that the bondholders have a right to expect that their obligations are not going to be impaired, and if the District can't pay you because it's broke, that's your problem, but we're not going to do anything that keeps the District from paying you.

Mr. MCKINNEY. I totally agree with that covenant, and I think it can be written to the point where it also states that tacitly under this legislation the Congress is a part of the contract, because it's the final authority on the Constitution of the United States.

Mr. RAINES. That would be a tremendous help in convincing the market that this unusual beast is one that Congress has thought through and recognizes that it's a 20-year commitment and not a day-to-day commitment.

Mr. MCKINNEY. The gentleman is implying that Congress thinks on a Monday morning. It certainly isn't Friday; if it were Friday, you'd never imply that Congress thinks.

Mr. FAUNTROY. Thank you, Mr. McKinney.

Gentlemen, you have proposed, against a background of careful assessment of what agencies have advised you, six measures that we ought to take to improve our rating and thus make a tremendous amount of savings, and let me say that, in my view, the achievement of the ability to impose a nonresident tax is not impossible.

Indeed, like other things, Mr. McKinney, the problem is not that we have tried this and found ourselves unequal to the task; we have found it difficult and therefore not really tried.

I'm not sure that a good faith effort on the part of persons who believe that it's just unfair to have 63 percent of the income of this city not available to us when we have to spend so much of it.

Mr. MCKINNEY. I would simply say to the chairman that I have not had the training, nor do I have the faith in the goodness of mankind that you express. With the President's somewhat ludicrous suggestion that we lose deductibility on these taxes, I think that the ship is sailing off into a far deeper fog bank.

Look at my constituents. We don't have an income tax in Connecticut. Forty-seven to fifty thousand of my constituents pay both a New York City income tax and a New York State income tax. How do I address the issue of nondeductibility with those people? At least in the State of New York they can say, "Well, we're going to tax our citizens, and they won't be able to deduct it from their Federal tax." We are going to lose that one to the South and the Southwest, I'm sure, because they've got all the oil and gas.

My constituents are just going to pay, and there will be no legislative recourse, because obviously they can't vote for the New York State Legislature nor the mayor of the city of New York, unless they move back into New York. It makes for quite a thicket.

Virginia and Maryland will have something to say about that, probably even Delaware; we might hear from them.

Mr. FAUNTROY. We will hear about removing our limitation, and I just think that the Virginia and Maryland delegations don't have that much clout vis-a-vis the entire Congress.

That aside, we will be able to take that on, should we get the resolve to do it.

We have been talking about one measure that would repeal the 30-day review period only, and that's of course the McKinney-Bliley suggestion. It does not contain any of the other provisions that you have in H.R. 2643 or H.R. 2947, my bill.

If we passed the McKinney-Bliley bill alone, what impact would that have on the rating or D.C. bond issues, in your view? Would it be good, bad, or not at all?

Mr. RAINES. Mr. Chairman, I'm afraid that provision alone would have a very minor effect. It would make the lives of people who are working on bond issues slightly easier in being able to move the bonds, but it would not have an effect on the ratings themselves, because the ratings are based on the financial fundamentals, not the process, and the rating agencies don't really care how long it takes you to get your bond acts through. They don't really care if you don't do a refunding. They don't really care if you can't bring forward a university or hospital issue. It's not their problem on the process. It's a big problem for the District and for the conduit beneficiaries such as universities.

So while it is a very important provision procedurally for the District Bonding Program, it would have little or no effect on the rating itself.

Mr. MCKINNEY. Let me simply state, Mr. Chairman, I totally agree with what you have said, but if it's just a simple matter on our way down a much more complicated street, which is going to be longer, we could do that. In fact, wouldn't we enable you to go out and refinance some of this Treasury debt and save us about 2 or 3 percent right now?

Mr. RAINES. If the bill could be adopted today, I think that would be true, but it seems to me, by the time the Congress were to adopt the bill, it may be useful by the end of the year, at which point we may well have gone through the layover period for the next bill.

Mr. MCKINNEY. I have some friends in the other body on this issue. I don't have any friends in the other body on most issues, like Nicaragua, et cetera, but I do have some friends on this issue, and I am quite sure that we could get the Senate to act very quickly, and I think that we could act very quickly and at least let you refinance.

What are you paying Treasury now?

Mr. RAINES. The highest debt currently outstanding, I believe, is 12 percent.

Mr. HILL. Approaching 13 percent.

Mr. McKINNEY. You see what I am saying, Mr. Chairman. If you take close to 13 percent, you could refinance that today on a single A or BBA. Alphonse, what do you think you could refinance for?

Mr. HILL. In today's market?

Mr. McKINNEY. Yes, with your present ratings.

Mr. HILL. We just refinanced in June at about 13⅞. We got about 9.47.

Mr. McKINNEY. So we would literally drop, by not having any congressional review if the city council got together and got their act going for you, which I'm sure they would—we could literally drop over 3 percentage points, at the minimum, quickly, on a lot of that Federal debt.

Mr. RAINES. One problem, Mr. McKinney. Maybe I can state this, since I'm not either an elected or appointed official of the District. A lot of the provisions that we are proposing on the procedural side are so technical that if you pull out the one or two that have an outside constituency for their movement, it will be very difficult to regain the attention to those technical provisions.

This was the case, it seems to me, the last time we were here with a technical bill, and it moved because there were provisions in there that had a particular impact on certain beneficiaries, and the entire technical part moved. Substantive provisions did not move, but the entire technical part moved.

It would seem that we may be facing the prospect of dooming the technical amendments here if we pull out the one that may have some additional support behind it that has been identified in the community.

So I, as a bond technician, would like to make the plea that the committee consider the full range of those things which do not rise to the level of controversy of a nonresident tax, because it would seem to me that if one of them can move, the committee has reviewed and has drafted already the legislation on the bond provisions to move them all, and that those do not rise to the level of controversy, and some of them have been talked about now for most of the 6 years that I've been around this situation.

Mr. McKINNEY. I'd be of the opinion that if we got rid of the nonresident tax, we could almost move the whole thing very quickly, but I know this place a little too well.

Mr. FAUNTROY. Let's follow up on that, because I think we have got to the point where this hearing can bear some significant fruit.

Mr. Raines, I wonder if you would detail now, consistent with Mr. McKinney's previous remark, what you feel, absent the repeal of the limitation on the nonresident tax, would be palatable to Congress and effective in raising our rates?

Mr. RAINES. Mr. Chairman, as you mentioned and I believe Mr. McKinney also mentioned, the fundamental of the formula-based Federal payment, which is included in a separate bill from the tax provision as a separate bill from the deficit provision, would be a fundamental.

The technical bond improvements, including the elimination of the layover, would be a fundamental improvement, and including a mechanism for funding the general fund deficit would be fundamental improvements.

Mr. McKINNEY. Not to mention the covenant.

Mr. RAINES. I was including that among the technical provisions.

Mr. MCKINNEY. All right.

Mr. RAINES. The only one that you do not have in front of you, which has not been proposed, is something dealing with the pensions, but if those provisions could be dealt with that I mentioned, those, I think, would give us substantial ammunition to go back to New York and try to move the bond rating.

So this package makes a great deal of sense even without the 2-percent nonresident tax, and since I believe that provision, the last time I saw it, was only three sentences long, your capable staff, I'm sure, would find a way to modify the current legislation before the committee to permit this to move as quickly as Mr. McKinney indicates it could move if that becomes the one stumbling block.

Mr. HILL. Mr. Chairman, one comment I may offer to the committee is that I feel that in H.R. 2641, where you have the general accumulated deficit reduction and also tax, if we were to look at the fixed Federal formula and set that at a level we are talking about in the bill, there may be a way that we can probably structure something that the accumulated deficit payment from the Feds could be eliminated, if we structure that in a way that there are not two layouts from the Federal side. That may get you some more room.

Mr. FAUNTROY. You are suggesting that the 35 percent, against the 29, really could deal with the unfunded——

Mr. HILL. Yes, it's a way that I think we could have some more room to reduce that accumulated deficit.

Mr. FAUNTROY. Hallelujah; I've got the amen over here; so let's move on.

Mr. MCKINNEY. One brief question, Mr. Chairman, and I don't know how you even approach this. I don't believe this committee has a problem with the formula. I think we might argue whether it's to be 29 and then we discuss accumulated deficit, or whether it's to be 35 and that includes accumulated deficit. That's minor. What do we do about the Appropriations Committee, though? Has anyone ever testified for the city in front of the Appropriations Committee about this?

Mr. RAINES. Mr. Chairman, it seems to me there are two questions. First, in recent history the Appropriations Committee has appropriated all that this committee has authorized, in fact has appropriated in excess in some cases of the Federal payment because of special additions they have made for special purposes.

Second, on the question of the formula being one in which the District would obtain the amount automatically, the role of the Appropriations Committee in reviewing the expenditures of the District and appropriating the expenditure of the money as opposed to the provision of the money would remain intact, that the committee would still be able to review the budget of the District to ensure that the expenditures were those that were authorized, so that from this perspective the formula payment would be to them just like any other revenue of the District and the question would focus on the spending side and not on the revenue side.

So from that standpoint, it seems that there ought to be a way to accommodate the interests of the Appropriations Committee because nothing included in here would change its role in passing the

Appropriations Act each year, nothing would change the requirement that before the District could spend any of the funds, Federal payment or non-Federal payment, there would have to be the review by that committee.

Mr. McKINNEY. So to make it clear for the record, we are simply stating that because we have a formula which is an aggregate amount, that doesn't mean that the Appropriations Committee can't line slide within that amount, which is what they do now.

Mr. RAINES. It seems to me that as long as there is an appropriations bill there is nothing to prevent the Appropriations Committee from not authorizing to spend as much money as you have.

Mr. FAUNTROY. A very valuable colloquy, Mr. McKinney, but I think we are getting close to resolution of this part of it, and assuming, therefore, that we achieve some resolution and a minimum package that would afford the District the opportunity to move up in the ratings and at the same time save a lot of money.

I just have a couple of longer range questions. The administration has proposed a repeal of the tax exemption for nongovernmental bonds, as you know. The proposal would replace the standard for tax exemption in current law which grants tax-exempt status to obligations on the basis of their qualifying, such as student loan bonds and mortgage subsidy bonds, veterans' mortgage bonds, small issue industrial development bonds, and the proposal would virtually eliminate, rather than limit, through a bargaining ceiling the Federal subsidy currently available to nongovernmental persons through tax-exempt financing. State and local governments would, however, retain the ability to finance projects with tax-exempt obligations if the proceeds are not used by nongovernmental persons.

If this proposal were to become law, what would be the impact on the District of Columbia?

Mr. RAINES. Mr. Chairman, that proposal would have a very significant impact on the District of Columbia, and the most unfortunate one, given that the District has only recently been permitted to utilize any of the financing powers that have been available to other State and local governments.

First, if the proposal were workable, which I believe it is not, its impact would be to eliminate the ability of the private sector and the District to obtain financing, particularly nonprofit institutions.

The District is unique in that most of the people looking for conduit financing are nonprofit; they are not profitmaking companies; they are the large universities and hospitals that serve the public. They would be prohibited from obtaining financing, and that would require the increasing of their costs and the passing on of those costs to people who almost uniquely would be least able to pay them, students for whom Federal aid would also drop, as well as patients, and would drive up the costs of the District because the District pays such a large share of the cost of hospital care in the District through the Medicaid Program.

But, Mr. Chairman, taken literally, the President's proposal might go even further. The test in the President's proposal of 1 percent of the proceeds going to the benefit of a private person, meaning the bonds would no longer be tax exempt, raises some interesting questions.

If the proposal for a regional airport was established, it would exclude any tax-exempt financing for a regional airport and would, in fact, the capital costs would be higher than if they remained under Federal control.

But even more so, if the District of Columbia has a major employer or a university or any other private entity that needs a new access road because they are going to have a vast expansion, and that access road only goes from a main arterial to this university or factory, can you finance that with tax-exempt financing, since more than 1 percent of the value of that goes to benefit a private person?

If the District of Columbia's road program generally is aimed in a way to increase its economic development by focusing on those areas that will produce new jobs, and those roads are only used by people who work in those jobs because it's a part of town where the average person wouldn't go because there are only factories or there are only employment places there, is that tax exempt?

The proposal, taken literally, goes so far as to be unworkable and could mean that bond counsel would have to look through every bond issue and determine if there is anybody out there who is getting more benefit from that than the general public.

So for the District it's most unfortunate because the District is only now being able to benefit from any provisions of the code. It would have a very strong effect on the private sector in the District, which I think is contrary to the administration's general position; and, third, it's probably unworkable as written because of the 1-percent test being so difficult to understand exactly what it is intended to mean.

Mr. HILL. Mr. Chairman, more specifically for the District, especially for some of our blighted urban areas, I think they will definitely be losers.

We cannot get people to go out and develop in those areas without some kind of advantages, and I think we are looking at areas in ward 8, the Camp Sims site, more specifically; it will be difficult to develop there without some tax advantage. We are looking at all the area around the Convention Center. I think it will have some impact because of some of the tax loss and advantages there.

Also, housing, which is very, very critical in the city, will have an impact.

So I think it's going to put the District in a slower posture in terms of moving into the realms of economic development like some of the other cities have taken advantage of these things. We have slowly gotten into this business, and the people who have taken the biggest advantage of that have been our universities and hospitals in the city, and you will see, I think, an increase in the rates to those constituencies as a result.

Mr. MCKINNEY. Just to follow through on Mr. Raines' comments, I'd simply say that the 1-percent test will fill every court in this land with the argument as to how many angels can stand on the head of a pin.

Mr. FAUNTROY. Thank you so very much, Mr. McKinney.

Gentlemen, I want to thank you for a thorough presentation, not only in your prepared remarks but also in response to the questions we have tendered to you.

Mr. MCKINNEY. I would like to thank you all, too. This has been one of the best, broad view pictures that we have had of this, and that's exactly what we need, because we are going to have to refer to your testimony throughout this process, and I appreciate it; it was extremely thorough and very informative.

Mr. FAUNTROY. Thank you.

Mr. MCKINNEY. I'd have to say to the deputy mayor for finance, I always get the argument, who saves the most money, the austerity program in the Mayor's office or the austerity program in Mr. Clarke's shop. I notice Mr. Clarke's testimony is on both sides of the paper and the Mayor's office is only on one side of the paper.

Mr. FAUNTROY. For shame. For shame. [Laughter.]

We will now call to the witness table Mr. Richard C. Siegel, the budget director for the council, whose frugality has already been touted by the ranking minority member.

We are happy to have you come to the witness table. As the gentleman from Connecticut has indicated, we have your testimony. We look forward to your presentation of it in whatever manner you choose.

Incidentally, let the record show that the deputy mayor for finance's testimony will be included in its entirety, as written.

Yes, Mr. Siegel.

STATEMENT OF RICHARD C. SIEGEL, BUDGET DIRECTOR, COUNCIL OF THE DISTRICT OF COLUMBIA

Mr. SIEGEL. Mr. Fauntroy, let me just say first that the council has saved the citizens of the District of Columbia more than just the publication of the chairman's testimony on both sides; we have saved, we believe, considerable millions for the residents of the District of Columbia, and the paper is just the tip of the iceberg.

Let me say that I'm here today for David Clarke, chairman of the District of Columbia Council. I will summarize a piece of the testimony and go into some detail on other parts, and I would hope that the whole testimony would be included in the record.

Passage of these bills, from the chairman's point of view, would move the District closer to achieving full home rule and meaningful local control over local affairs. Also, the bills would strengthen the District's fiscal position by normalizing certain aspects of the District's financial operations.

The political argument in favor of these changes has been made repeatedly over the years, but let me try to make it again. D.C. residents, like all U.S. citizens, deserve to run their local government democratically through locally elected officials without the interference of the Congress in which they are not fully represented.

The argument I'd like to stress today, though, is a financial one, in keeping with the financial theme of the bills under consideration.

One of the major current abnormalities of the District's financial operations is a relatively poor bond rating which, on the District's last three bond issues alone, will cost us about $30 million over the next 27 years. The District has only recently entered the bond market; yet, as we play catchup, we find ourselves hampered by a

BAA rating on long-term general obligation bonds, a rating which Moody's, the respected bond-rating agency, describes as "medium grade, characteristically unreliable over any great length of time, and lacking outstanding investment characteristics."

We believe that this bond rating results, in part, from systemic flaws in the District's charter; from the lack of a formula-based Federal payment; from the large accumulated general fund deficit; from the unfunded pension liability of the District's police, fire, and teachers' retirement fund; and from the fear, either real or imaginary, that congressional involvement in the budgetary and legislative affairs of the District could be detrimental to holders of District bonds.

As you know, the District has made tremendous strides in financial management since the release of its first independently audited financial report of fiscal year 1980. We have ended 4 fiscal years in a row with a budget surplus. The accumulated deficit discovered in fiscal year 1980, nearly $380 million, has been reduced in 4 years by almost one-third, and we plan to end the current fiscal year with a budget surplus of $23.6 million.

For 3 years in a row, the District has been awarded the coveted certificate of conformance in financing reporting from the Government Finance Office Association, a distinction held by 2 of the 50 States. This certificate indicates that the District is meeting the strictest of financial reporting standards.

With the assistance of Congress, the District successfully installed and is operating today one of the Nation's most comprehensive financial accounting and budgeting systems which has contributed immensely to our ability to manage our resources.

Today, just 5 short years after our financial management system became fully operational, the District is on the leading edge of financial management and, in some respects, is leading the pack. We are managing our resources as well if not better than many other State and local governments, yet many of these State and local governments fare much better than the District has in the bond rating market.

The bond raters are explicit about their lack of faith in long-term District bonds. Moody's has pointed out that "the District does not have State sovereignty." Standard and Poors has noted that "the District charter may be altered by an act of Congress," and that the charter grants "most but not all of the powers of taxation."

For instance, the District is prohibited from taxing what is estimated to be two-thirds of all earnings generated within its boundaries because these people are not District residents.

The bond rating firms are concerned also that the District's Federal payment, although it has increased steadily, has actually declined as a percentage of District revenues from 39 percent in 1975 to approximately 26 percent in 1984.

The establishment of a formula Federal payment as a percentage of the District's local source revenues would remove the Federal payment from the political arena and calm investors' fears about unpredictability.

A formula-based payment providing our financial analysts with a degree of certainty would allow the District to plan its budget in

advance based on best estimates of all of our revenue sources, not simply those generated locally.

The bond raters are also worried about the accumulated general fund deficit which is seen as a dark cloud looming on the District's fiscal horizon. At the end of fiscal year 1980, when first discovered in the District's first independent audit by Arthur Andersen & Co., the deficit stood at $378 million. At the end of fiscal year 1984, the deficit was reduced to $270 million, a reduction of more than $100 million, or 30 percent, in 4 years.

The burden of this deficit reduction has been borne by the District, although the deficit was accumulated before the granting of home rule. On numerous occasions, the District has proposed to eliminate the deficit by funding one-third in annual budgets, issuing debt to fund one-third, and requesting Federal funds to match the other one-third.

By the end of fiscal year 1985, the District will have more than lived up to its end of this proposal, with contributions of more than $135 million, or 36 percent, through the budgetary process. A congressional contribution of $13.45 million annually for 10 years as called for in H.R. 2641 would result in a Federal commitment of $134.5 million and an additional reduction of one-third of the original deficit matching the District's budgetary reduction.

H.R. 2641 complements the D.C. Council's recent action on the fiscal year 1986 budget which included a proposal for Federal contributions to the deficit reduction over a 5-year period.

I might add, Congressman McKinney, that the chairman of the council, David Clarke, has testified for, I believe, 3 years in a row before the Subcommittee on Appropriations for the need to reduce the general fund deficit and to seek Federal aid. Testimony, in fact, that he presented to the House subcommittee this year underscored the need for Congress to pay its share toward the deficit reduction and recommended a payment schedule similar to the one in H.R. 2641 telescoped into 5 years.

The systemic problems of the District's charter are not just political. They translate directly to great cost for District residents. If we were to address fully the concerns raised by the municipal bond-rating firms through the passage of these pieces of legislation, then we would go far toward hiking the District's investment grade rating.

The District has only promulgated three general obligation bond issues since we began in 1984, but had these been AAA instead of BAA ratings, our citizens could have realized a substantial savings, a reduction of interest rates as great as 56 basis points, and a potential dollar savings of more than $30 million over the life of the issues.

It is evident, therefore, that the successful passage of these bills would not only provide the residents of the District with greater local control over local matters but would also result in substantial financial savings in the issuance of long-term municipal bonds.

This concludes the testimony, Mr. Chairman. We are available for questions, should you have any.

[The prepared statement of Mr. Clarke follows:]

COUNCIL OF THE DISTRICT OF COLUMBIA

WASHINGTON, D. C. 20004

Testimony of David A. Clarke, Chairman

before the

Subcommittee on Fiscal Affairs & Health, Committee on the District of Columbia

July 15, 1985

The Honorable Walter E. Fauntroy, Chairman

MR. CHAIRMAN, AND OTHER DISTINGUISHED MEMBERS OF THIS SUBCOMMITTEE, I AM DAVID A. CLARKE, CHAIRMAN OF THE COUNCIL OF THE DISTRICT OF COLUMBIA. I AM ADDRESSING SEVERAL BILLS BEFORE THE SUBCOMMITTEE ON FISCAL AFFAIRS AND HEALTH WHICH ARE SCHEDULED FOR MARK-UP TODAY. THE BILLS INCLUDE THE FOLLOWING:

- H. R. 2641, WHICH AUTHORIZES A FEDERAL CONTRIBUTION TO REDUCE THE DISTRICT'S ACCUMULATED GENERAL FUND DEFICIT, AND ALLOWS FOR A TAX OF NOT MORE THAN 2 PERCENT ON THE PERSONAL INCOME OF NON-RESIDENTS WORKING IN THE DISTRICT;

- H. R. 2642 WHICH SETS A FORMULA-BASED FEDERAL PAYMENT TO THE DISTRICT AND REQUIRES THE DISTRICT TO OFFSET IN ITS ANNUAL BUDGET ANY DEFICIT OCCURRING IN ITS GENERAL FUND FOR THE PREVIOUS FISCAL YEAR; AND

- H. R. 2643, WHICH WILL PROVIDE THE DISTRICT WITH THE CAPACITY AND FLEXIBILITY TO POSITION ITSELF COMPETITIVELY WITHIN THE

MUNICIPAL BOND MARKET.

PASSAGE OF THESE BILLS WOULD MOVE THE DISTRICT CLOSER TO ACHIEVING FULL HOME-RULE AND MEANINGFUL LOCAL CONTROL OVER LOCAL AFFAIRS. ALSO, THE BILLS WOULD STRENGTHEN THE DISTRICT'S FISCAL POSITION BY NORMALIZING CERTAIN ASPECTS OF THE DISTRICT'S FINANCIAL OPERATIONS. THE POLITICAL ARGUMENT IN FAVOR OF THESE CHANGES HAS BEEN MADE REPEATEDLY OVER THE YEARS, BUT LET ME MAKE IT AGAIN: D.C. RESIDENTS, LIKE ALL U.S. CITIZENS, DESERVE TO RUN THEIR LOCAL GOVERNMENT DEMOCRATICALLY, THROUGH LOCALLY ELECTED OFFICIALS, WITHOUT THE INTERFERENCE OF A CONGRESS IN WHICH THEY ARE NOT FULLY REPRESENTED. THE ARGUMENT I'D LIKE TO STRESS TODAY, THOUGH, IS A FINANCIAL ONE, IN KEEPING WITH THE FINANCIAL THEME OF THE BILLS UNDER CONSIDERATION.

ONE OF THE MAJOR CURRENT ABNORMALITIES OF THE DISTRICT'S FINANCIAL OPERATIONS IS OUR RELATIVELY POOR BOND RATING, WHICH ON THE DISTRICT'S LAST THREE BOND ISSUES ALONE, WILL COST US ABOUT $30 MILLION OVER THE NEXT 27 YEARS. THE DISTRICT HAS ONLY RECENTLY ENTERED THE BOND MARKET, YET AS WE PLAY CATCH-UP, WE FIND OURSELVES HAMPERED BY A "BAA" RATING ON LONG-TERM, GENERAL OBLIGATION BONDS -- A RATING WHICH MOODY'S, THE RESPECTED BOND-RATING AGENCY, DESCRIBES AS "MEDIUM GRADE . . . CHARACTERISTICALLY UNRELIABLE OVER ANY GREAT LENGTH OF TIME . . . LACK(ING) OUTSTANDING INVESTMENT CHARACTERISTICS."

I BELIEVE THAT THIS BOND RATING RESULTS, IN PART, FROM SYSTEMIC FLAWS IN THE DISTRICT'S CHARTER, FROM THE LACK OF A

FORMULA-BASED FEDERAL PAYMENT, FROM THE LARGE ACCUMULATED GENERAL FUND DEFICIT, FROM THE UNFUNDED PENSION LIABILITY OF THE DISTRICT'S POLICE, FIRE, AND TEACHER'S RETIREMENT FUND, AND FROM THE FEAR -- EITHER REAL OR IMAGINARY -- THAT CONGRESSIONAL INVOLVEMENT IN THE BUDGETARY AND LEGISLATIVE AFFAIRS OF THE DISTRICT COULD BE DETRIMENTAL TO HOLDERS OF DISTRICT BONDS.

AS YOU KNOW, THE DISTRICT HAS MADE TREMENDOUS STRIDES IN FINANCIAL MANAGEMENT SINCE THE RELEASE OF ITS FIRST INDEPENDENTLY AUDITED FINANCIAL REPORT OF FISCAL YEAR 1980. WE HAVE ENDED FOUR FISCAL YEARS IN A ROW WITH A BUDGET SURPLUS. THE ACCUMULATED DEFICIT DISCOVERED IN FISCAL YEAR 1980, NEARLY $380 MILLION DOLLARS, HAS BEEN REDUCED IN FOUR YEARS BY ALMOST ONE THIRD, AND WE PLAN TO END THE CURRENT FISCAL YEAR WITH A BUDGET SURPLUS OF $23.6 MILLION. FOR THREE YEARS IN A ROW, THE DISTRICT HAS BEEN AWARDED THE COVETED "CERTIFICATE OF CONFORMANCE IN FINANCIAL REPORTING" FROM THE GOVERNMENT FINANCE OFFICERS ASSOCIATION, A DISTINCTION HELD BY ONLY TWO OF 50 STATES. THIS CERTIFICATE INDICATES THAT THE DISTRICT IS MEETING THE STRICTEST OF FINANCIAL REPORTING STANDARDS.

WITH THE ASSISTANCE OF THE CONGRESS, THE DISTRICT SUCCESSFULLY INSTALLED AND IS OPERATING TODAY ONE OF THE NATION'S MOST COMPREHENSIVE FINANCIAL BUDGETING AND ACCOUNTING SYSTEMS, WHICH HAS CONTRIBUTED IMMENSELY TO OUR ABILITY TO MANAGE OUR RESOURCES. TODAY -- JUST FIVE SHORT YEARS AFTER OUR FINANCIAL MANAGEMENT SYSTEM BECAME FULLY OPERATIONAL -- THE DISTRICT IS IS ON THE LEADING EDGE OF FINANCIAL MANAGEMENT AND IN

SOME RESPECTS IS LEADING THE PACK. WE ARE MANAGING OUR RESOURCES AS WELL AS, IF NOT BETTER THAN, MANY OTHER STATE AND LOCAL GOVERNMENTS. YET MANY OF THESE STATE AND LOCAL GOVERNMENTS FARE MUCH BETTER THAN THE DISTRICT HAS IN THE BOND RATING MARKET.

THE BOND-RATERS ARE EXPLICIT ABOUT THEIR LACK OF FAITH IN LONG-TERM D.C. BONDS. MOODY'S HAS POINTED OUT THAT "THE DISTRICT DOES NOT HAVE STATE SOVEREIGNTY." STANDARD AND POORS HAS NOTED THAT THE "DISTRICT CHARTER MAY BE ALTERED BY AN ACT OF CONGRESS" AND THAT THE CHARTER GRANTS "MOST, BUT NOT ALL, OF THE POWERS OF TAXATION." FOR INSTANCE, THE DISTRICT IS PROHIBITED FROM TAXING WHAT IS ESTIMATED TO BE TWO THIRDS OF ALL EARNINGS GENERATED WITHIN ITS BOUNDARIES BECAUSE THESE PEOPLE ARE NOT DISTRICT RESIDENTS.

THE BOND-RATING FIRMS ARE CONCERNED, ALSO, THAT THE DISTRICT'S FEDERAL PAYMENT, THOUGH IT HAS INCREASED STEADILY, HAS ACTUALLY DECLINED AS A PERCENTAGE OF DISTRICT REVENUES FROM 39 PERCENT IN 1975 TO 26 PERCENT IN 1984. THE ESTABLISHMENT OF A FORMULA FEDERAL PAYMENT, AS A PERCENTAGE OF THE DISTRICT'S LOCAL-SOURCE REVENUES, WOULD REMOVE THE FEDERAL PAYMENT FROM THE POLITICAL ARENA AND CALM INVESTORS' FEARS ABOUT UNPREDICTABILITY. A FORMULA-BASED FEDERAL PAYMENT -- PROVIDING OUR FINANCIAL ANALYSTS WITH A DEGREE OF CERTAINTY -- WOULD ALLOW THE DISTRICT TO PLAN ITS BUDGETS IN ADVANCE BASED ON "BEST ESTIMATES" OF ALL REVENUE SOURCES, NOT SIMPLY ON THE 80 PERCENT GENERATED LOCALLY.

THE BOND RATERS ARE ALSO WORRIED ABOUT THE ACCUMULATED GENERAL FUND DEFICIT, WHICH IS SEEN AS A DARK CLOUD LOOMING ON THE DISTRICT'S FISCAL HORIZON. AT THE END OF FISCAL YEAR 1980, WHEN FIRST DISCOVERED IN THE DISTRICT'S FIRST INDEPENDENT AUDIT BY ARTHUR ANDERSEN & CO., THIS DEFICIT STOOD AT $378 MILLION. AT THE END OF FISCAL YEAR 1984 THE DEFICIT WAS REDUCED TO $270 MILLION, A REDUCTION OF MORE THAN $100 MILLION (28 PERCENT) IN FOUR YEARS. THE BURDEN OF THIS DEFICIT REDUCTION HAS BEEN BORNE BY THE DISTRICT, THOUGH THE DEFICIT WAS ACCUMULATED BEFORE THE GRANTING OF HOME RULE. ON NUMEROUS OCCASIONS, THE DISTRICT HAS PROPOSED TO ELIMINATE THE DEFICIT BY FUNDING ONE-THIRD IN ANNUAL BUDGETS, ISSUING DEBT TO FUND ONE-THIRD, AND REQUESTING FEDERAL FUNDS TO MATCH ONE-THIRD. BY THE END OF FISCAL YEAR 1986, THE DISTRICT WILL HAVE MORE THAN LIVED UP TO ITS END OF THIS PROPOSAL, WITH CONTRIBUTIONS OF MORE THAN $135 MILLION (36 PERCENT) THROUGH THE BUDGETARY PROCESS. A CONGRESSIONAL CONTRIBUTION OF $13.45 MILLION ANNUALLY FOR 10 YEARS -- AS CALLED FOR IN H.R. 2641 -- WOULD RESULT IN A FEDERAL COMMITMENT OF $134.5 MILLION AND AN ADDITIONAL REDUCTION OF ONE-THIRD OF THE ORIGINAL DEFICIT, MATCHING THE DISTRICT'S BUDGETARY REDUCTION.

H. R. 2641 COMPLEMENTS THE D.C. COUNCIL'S RECENT ACTION ON THE FISCAL YEAR 1986 BUDGET, WHICH INCLUDED A PROPOSAL FOR FEDERAL CONTRIBUTIONS TO THE DEFICIT REDUCTION OVER A FIVE-YEAR PERIOD. TESTIMONY I PRESENTED TO THE HOUSE SUBCOMMITTEE ON APPROPRIATIONS FOR THE DISTRICT OF COLUMBIA UNDERSCORED THE NEED FOR CONGRESS TO PAY ITS SHARE TOWARD OF THE DEFICIT REDUCTION AND RECOMMENDED A PAYMENT SCHEDULE SIMILAR TO THE

ONE IN H.R. 2641, THOUGH TELESCOPED INTO FIVE YEARS.

THE SYSTEMIC PROBLEMS OF THE DISTRICT'S CHARTER ARE NOT JUST POLITICAL: THEY TRANSLATE DIRECTLY TO GREATER COSTS FOR DISTRICT RESIDENTS. IF WE WERE TO ADDRESS FULLY THE CONCERNS RAISED BY THE MUNICIPAL BOND RATING FIRMS -- THROUGH THE PASSAGE OF THESE PIECES OF LEGISLATION -- THEN WE WOULD GO FAR TOWARDS HIKING THE DISTRICT'S INVESTMENT GRADE. THE DISTRICT HAS ONLY PROMULGATED THREE GENERAL OBLIGATION BOND ISSUES SINCE WE BEGAN IN 1984: BUT HAD THESE BEEN RATED "AAA" INSTEAD OF "BAA", OUR CITIZENS COULD HAVE REALIZED A SUBSTANTIAL SAVINGS: A REDUCTION OF INTEREST RATES AS GREAT AS 56 BASIS POINTS AND A POTENTIAL DOLLAR SAVINGS OF MORE THAN $30 MILLION OVER THE LIFE OF THE THREE ISSUES.

IT IS EVIDENT, THEREFORE, THAT THE SUCCESSFUL PASSAGE OF THESE BILLS WOULD NOT ONLY PROVIDE THE RESIDENTS OF THE DISTRICT WITH GREATER LOCAL CONTROL OVER LOCAL MATTERS, BUT WOULD ALSO RESULT IN SUBSTANTIAL FINANCIAL SAVINGS IN THE ISSUANCE OF LONG-TERM MUNICIPAL BONDS.

THIS CONCLUDES MY TESTIMONY, MR. CHAIRMAN. I AM AVAILABLE TO ANSWER ANY QUESTIONS THE SUBCOMMITTEE MAY HAVE.

Mr. FAUNTROY. Thank you, again, for your testimony and the care with which Chairman Clarke and staff have prepared it.

The Mayor has a proposal, as you know, for eliminating a number of provisions currently required in the council's borrowing legislation. It also eliminates current law with regard to elections on issuing general obligation bonds. Does the council accept these proposals?

Mr. SIEGEL. Mr. Chairman, I cannot, obviously, speak for the council, because it hasn't voted on it on a local basis, and we really don't get the chance to vote on congressional pieces on a local basis. I can speak probably from my point of view in looking at the bill and also from the chairman's point of view, and I'd like to do that.

Some of the pieces of the bill are technical in nature from our point of view. There is one provision there that currently has to do with the amount of Federal payment—that the Mayor shall share with the council what he proposes the Federal payment to be to the President before it gets sent to the Congress.

If we were to go with the legislation having a formula base, then it would not be necessary any more, obviously, for the council to get involved. So from that point of view, it's dealing with some technical matters and conforming matters of the charter.

Mr. FAUNTROY. For example, would the council support the issuance of refunding bonds?

Mr. SIEGEL. There's no question about it. We have supported that in the past, and I'm sure the council will continue. The council's interest, from my point of view, would be well served if we could eliminate some of our 13-percent money and exchange it for 9.5-percent money.

Mr. FAUNTROY. How about elimination of newspaper advertisements in New York City and the District of Columbia?

Mr. SIEGEL. I don't believe that there would be much objection to that. I would suspect that, in eliminating that from the charter, the council could perhaps consider that as a local issue when the particular bonding legislation would come to the council, and the committee report or perhaps the legislation, should the council desire advertising in the District of Columbia, would include the requirement, and I'm sure the executive would follow through.

Mr. FAUNTROY. Would you support the private or public sale of bonds, notes, and other obligations without advertisements?

Mr. SIEGEL. We would certainly not support the public sale without advertisements.

I wouldn't suspect the executive would recommend a very large private sale, and I think our legislative process would call—because it is a deliberative process—would refer a bond act to committee, and the committee most likely would hold a public hearing, so that in addition to notice through the media there would be public notice through our own facilities of the D.C. Register and ample opportunity for citizens of the District of Columbia to comment through our own legislative process.

Mr. FAUNTROY. You have already indicated how the formula-based Federal payment would affect your budget process. I wonder if you could just outline how you think it would go with the formula Federal payment in effect.

Mr. SIEGEL. I believe the council would be in favor of a formula Federal payment. This particular legislation does propose a revenue base. We have been looking at, over the last couple of years, other bases, and the chairman is exploring possibilities of looking at a Federal payment formula in a similar type of formula and capacity to the way that agencies of municipal governments and local governments work out indirect cost rates with the cognizant Federal agency, and that may be a model also for an additional look at the Federal payment.

But we would support, I'm sure, a formula-based payment. The certainty and the predictability for us in looking at the executive's budget on an annual basis is as important as it is for their offices to predict.

Mr. FAUNTROY. Thank you so much, Mr. Siegel.

Mr. McKinney.

Mr. MCKINNEY. Thank you for coming, Mr. Siegel. I think we have covered it all pretty well. I just would suggest, having been caught up in this thicket also, that I come to the conclusion that the formula payment based on a percentage of revenues collected is about the only way you are ever going to reach success.

I've sat here for years while we've tried to put a value on parks and Federal buildings and police protection for the President, and so on and so forth. It just doesn't work. We got into, again, the angels on the head of the pin arguments.

The nice thing about the proposal in this legislation, I think, is that, in fact, it would tie the Federal payment to the District's taxing effort so that, therefore, you could get rid of this sort of incorrect attitude in Congress on the part of some of my peers who don't really know much about the city except they drive down its streets to come to work, that in fact the District taxpayer is getting away with something because of the Federal payment. The tying of the two together would make it much easier.

But we are getting there, you know. It's an interesting thing. When I first came to Washington in 1970, I counted about 22 Congressmen and Senators that lived and owned residences on Capitol Hill. Now I count over 290-something. That means that they are all District taxpayers as well as Federal taxpayers. It's amazing how much faster one can get their attention.

You don't have this problem, Reverend, but you realize, if we pass the President's tax proposal, all of us that went out and bought these horribly overpriced houses so that we could write off our interest payments instead of just throwing money down a rent rathole won't be able to write off those taxes, because it will be considered a second residence by definition.

Mr. FAUNTROY. On that note, I'm going to conclude the hearing, noting first that the President's suggestion of no interest deduction on second and third homes is lifted from the Fauntroy substitute to the Gramm-Latta proposal of 1981, and of course I therefore have mixed emotions about that tax package.

Mr. MCKINNEY. That's all right, Mr. Chairman; I'll forgive you, because at least I can get on an airplane on Mondays and escape; you can't. [Laughter.]

Mr. FAUNTROY. Let me say that I think this hearing has been very useful in sharpening our focus and, I think, leading us toward

a resolution of this question that should enable us to improve our bond rating and save a lot of money.

To that end, I'm going to gavel the hearing to a close. I'll recess the hearing, and then after a brief consultation with the ranking minority member, we will make some disposition of the matters about which we have had this hearing.

[Recess.]

Mr. FAUNTROY. The subcommittee will come to order now.

I want to direct the majority and minority staff to redraft the four bills which have been reviewed here and redraft them in line with the consensus expressed during the hearing with a view to myself and the ranking minority member getting together later on this week to review that, and hopefully therefore get it on the track that would enable us, in a timely fashion, to have consideration of the measure both in the House and the Senate and signed by the President by September 30.

With that, we will call the hearing and markup to a close.

[Whereupon, at 11:20 a.m., the subcommittee was adjourned.]

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